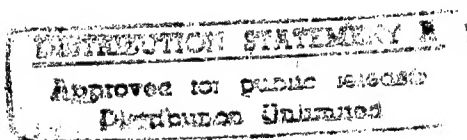




European Diversification and Defense Market Assessment

2nd Edition



A
*Comprehensive Guide
For Entry into
Overseas Markets*

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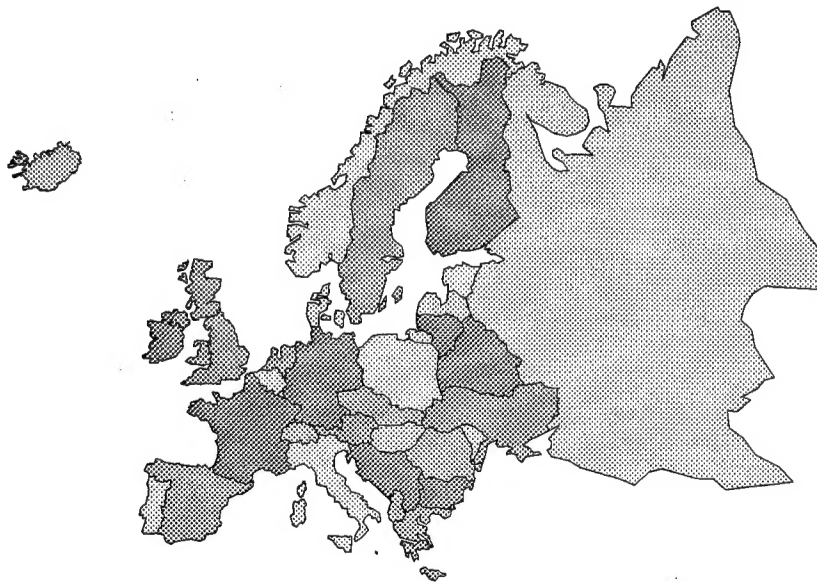
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*Bureau of Export Administration
Office of Strategic Industries and
Economic Security*

September 1997

EUROPEAN DIVERSIFICATION AND DEFENSE MARKET ASSESSMENT

Second Edition

*A Comprehensive Guide for Entry
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Published by:
U.S. Department of Commerce
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Office Strategic Industries and Economic Security
September 1997



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Export Administration
Washington, D.C. 20230

September 1997

The end of the Cold War and the resulting reductions in defense spending have presented many challenges for U.S. industry. The Department of Commerce, through the Bureau of Export Administration, has taken a number of initiatives to provide assistance to U.S. industry in this period of transition.

Providing current market information on commercial and defense business opportunities abroad is an important component of our defense conversion program. This information should assist U.S. firms in their market and product diversification efforts.

Therefore, I am pleased to announce the publication of the second edition of the European Diversification and Defense Market Assessment Guide which covers selected NATO and non-NATO countries in western Europe as well as central European markets. It provides a wide variety of information concerning trade opportunities, government procurement processes, country-specific business practices, and important points of contact in Europe. The guide also provides information regarding potential business opportunities within the NATO alliance. Additional guides for the Pacific Rim, Western Hemisphere and Middle East are also available.

The Department of Commerce is committed to assisting U.S. firms in their efforts to meet the challenges of the post-Cold War era. We hope that this series of guides will help U.S. firms investigate the many business opportunities that exist in the global marketplace. For additional information concerning these publications and other defense diversification programs, please access our website at <http://www.bxa.doc.gov> or contact the Office of Strategic Industries and Economic Security at (202) 482-4695.

William A. Reinsch



ACKNOWLEDGMENTS

The editor wishes to thank the many agencies and people that contributed to the completion of this guide. In particular, to the Department of Commerce's Commercial Service Officers, the Defense Department's Security Assistance Officers, Offices of Defense Cooperation as well as the State Department's Foreign Service Officers resident in the U.S. embassies within the countries profiled, for the high quality information submitted.

In addition, the editor would like to thank William Denk, Richard Meyers, Will Fisher, Yvette Johnson and Daphne Bonet of the Bureau of Export Administration as well as the Office of International Operations within the U.S. Commercial Service for their important contributions to the development of this project.

John S. Isbell
Editor

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INTRODUCTION

The European continent has been home to monumental changes during the last six years. The end of the Cold War brought forth new nations from the former Soviet Bloc and with the emergence of these countries, potential markets for U.S. firms. Although the post Cold War era has resulted in a reduction of defense spending among NATO and former Warsaw Pact countries, dual-use and defense trade opportunities do exist for U.S. firms. Most nations in Europe are in need of upgrades of existing systems, particularly in Central Europe, where NATO membership has been extended to the first group of former Soviet satellite countries.

Despite the lingering recession in Western Europe and the East's continuing economic adjustment to market economies, a wide array of commercial opportunities exists for U.S. firms. The region possesses a number of well diversified economies that exhibit growing demand for high technology products in commercial and defense sectors and, thus, provides a wide variety of trade opportunities for U.S. firms. The expansion of the European Union to the EFTA nations and to Central Europe will facilitate entry into numerous markets. The history of strong political, military and economic ties to Western Europe and the deepening of similar relationships with the former Warsaw Pact nations are a solid base for success in both commercial and defense markets.

The European Diversification and Defense Market Guide is intended to provide current information to U.S. firms interested in dual-use and/or defense trade opportunities in this established and diversified region. Section I, **Getting Started**, provides important information on U.S. Government policies and organizations involved in trade with Europe. This section corresponds with the guidance provided in the Defense Department's Selling to the Allies publication. Section II, **Country Profiles**, consists of chapters for each country and includes the following sections.

The **Overview** section provides a brief description of each nation's economy, including growth rates and the government's economic development plans, where available. This section provides a concise picture of the macro-economic situation in each country.

The **Defense Industry Environment** section consists of a brief discussion of each nation's defense budget, the armed forces' defense plan and the structure of the domestic defense industry. This section also provides information, where available, on the non-U.S. foreign suppliers in order to assess the competitive environment within the defense market.

Within the **Defense Opportunities** section, general requirements for defense equipment as well as specific trade leads are discussed. In addition to new systems, information regarding upgrades and repair opportunities are made available. This section encompasses a wide variety of defense trade opportunities for U.S. defense firms of all sizes.

In the ***Defense Procurement Process*** section, the defense contracting process of each country profiled is explained and includes points of contact for the agencies and organizations involved in this area.

The ***Diversification/Commercial Opportunities*** section highlights some dual-use and/or commercial opportunities that exist in the countries profiled. Each of the industry sectors discussed are product areas that face growing demand in the subject nations and are titled "promising sectors" by the Commerce Department's Foreign Commercial Service.

Doing Business in... outlines the country-specific business practices necessary for successful business transactions in these selected European nations. Included in this section are specialized government regulations that U.S. firms may face when conducting business in these countries.

Lastly, the ***U.S. Government Points of Contact*** section provides useful Department of Commerce, State and Defense points of contact within the U.S. embassies located in the countries profiled that are able to assist U.S. firms interested in doing business in Europe.

The **European Diversification and Defense Market Assessment Guide** has been developed to provide assistance to U.S. defense firms of all sizes in their diversification efforts. Follow-on editions will focus on updated versions of the Middle East and the Western Hemisphere guides.

THE DEPARTMENT OF COMMERCE'S NATIONAL DEFENSE CONVERSION PROGRAM

The Department of Commerce, through the Bureau of Export Administration (BXA) has developed a comprehensive assistance program for U.S. industry in response to the dramatic reduction of defense spending. This program, an important part of the Department's overall efforts in defense conversion, consists of three main components: international diversification market assessment guides, defense trade advocacy, and a needs assessment program. These components, linked together, provide a wide variety of short and long term assistance to address the immediate and emerging needs of the defense industrial base. Each component is briefly described in terms of how it addresses the short, medium or long-term needs of U.S. defense firms.

International Diversification and Defense Market Assessment Program: This program is structured to provide information that will address an immediate need to determine new markets for dual-use and defense products. In this way, the market assessment program offers current information to U.S. firms through the development of international diversification and defense market assessment guides. These guides provide a variety of information to U.S. manufacturers regarding non-traditional dual-use and defense markets in the Pacific Rim, Europe, the Middle East, and the Western Hemisphere. Each chapter within these guides offers comprehensive information on how to do business in targeted countries, as well as specific commercial and defense trade opportunities open to U.S. firms in these markets. These guides are designed for small U.S. businesses that are new to exporting. The market assessment program has been developed to help U.S. firms maintain revenue from alternative domestic or international markets which, in turn, will allow time to implement diversification or conversion programs.

Defense Trade Advocacy: The Bureau of Export Administration, with its strong historical relationships to both the Department of Defense and Department of State, is placed in an advantageous position to serve as an advocate for the U.S. defense industry in its efforts to successfully compete for overseas procurements. Within this role, BXA generates high level government-to-government advocacy on behalf of U.S. industry. The agency also serves as industry ombudsman in the interagency community, interjecting economic and competitiveness considerations as well as overall industry concerns into U.S. arms transfer determinations.

Needs Assessment Program: The Bureau of Export Administration's Needs Assessment Program entails a longer term focus by providing specialized, firm-specific diversification assistance. Within this program, firms are requested to complete a short questionnaire which assesses their current diversification efforts and determines what kinds of assistance would be most useful. An interagency response team has been assembled which will then work with individual firms, providing a coordinated response to individual firms' needs. The team includes representatives from various agencies within the Department of Commerce, the Department of

Energy's National Laboratories, the Export Import Bank, the Small Business Administration, the Department of Labor and various state agencies.

These three areas that make up the core of the Commerce Department's national defense conversion program can be effectively utilized by U.S. firms that are at virtually any phase of defense diversification or conversion. For additional information about these programs, please contact the following BXA office:

Office of Strategic Industries and Economic Security
Room 3876

U.S. Department of Commerce
Washington, D.C. 20230

Tel: (202) 482-4695
Fax: (202) 482-5650
e-mail: jisbell@bxa.doc.gov or
orji@bmpcoe.org

SECTION I: GETTING STARTED

THE ROLE OF THE COMMERCIAL OFFICER AND THE COMMERCIAL SERVICE

The primary role of the Commercial Officer and the U.S. Commercial Service (CS) of the Department of Commerce is to assist U.S. companies in entering foreign markets. The CS offers a variety of market information and sales related services aimed at assessing a company's export potential, identifying markets, and selecting potential buyers and representatives abroad.

The Commercial Service is a worldwide network of export specialists located in 47 domestic offices and at U.S. Embassies in 77 countries. Under a strong Congressional and Executive Branch mandate to assist small and medium size firms to export and expand into foreign markets, the CS promotes U.S. commercial interests abroad.

International trade specialists located in the CS district offices throughout the United States are often the first stop for companies looking at foreign markets. Domestic offices can supply information and data about specific foreign markets, explain and provide a variety of specialized CS services, and assist in the export process. Some of the services available are briefly described below:

Agent Distributor Service

The Agent Distributor Service (ADS) identifies potential agents, distributors, and representatives in a foreign country. The U.S. company provides promotional and technical materials concerning its product to an export specialist in a CS district office in the United States. Within 90 days, the client receives a list of up to six prospective contacts. The CS offices abroad will assist in making appointments and introductions upon request. The fee for this service is \$125 per request.

Market Research

CS district offices in the United States have market information on all foreign markets. The Country Marketing Plan, prepared annually by each CS office abroad, provides an overview of the commercial environment, market opportunities for U.S. products, and other useful information. Furthermore, these offices have current information on commercial trends abroad and new trade opportunities. Fees for this service vary.

Single Company Promotions

CS offices at U.S. Embassies can plan and host promotions for specific U.S. companies entering a new market. The charge for this service is cost reimbursement.

Trade Missions, Trade Shows, and Matchmakers

CS offices worldwide and other units of Commerce's International Trade Administration (ITA) in Washington organize, promote, and manage trade missions, U.S. exhibitions at international trade fairs, and Matchmaker programs. The Matchmaker program is a service that combines the advantages of a trade mission and private export counseling. The charge for this service is cost reimbursement.

Comparison Shopping Service

The Comparison Shopping Service provides concise answers to a list of 12 questions directed at evaluating the suitability of a product to a foreign market. This service also identifies the competitors, price, promotion and distribution systems, as well as trade barriers. The charge for this service ranges from \$500 to \$1,500, depending on the market requested.

Additional services and counseling are available from Commercial Officers and the CS. For more information regarding specialized services contact your local CS district office (listed in the local telephone book under Department of Commerce), the U.S. Embassy, or write to the Director General of the Commercial Service at the following address:

Director General
U.S. Commercial Service
Room 3802
International Trade Administration
U.S. Department of Commerce
Washington, D.C. 20230

THE ROLE OF THE OFFICE OF DEFENSE COOPERATION AND THE SECURITY ASSISTANCE OFFICE

The term "Security Assistance Office" (SAO) is a generic term encompassing DoD elements located in a foreign country that are responsible for Foreign Military Sales (FMS) and associated services, including training, sales management, program monitoring, evaluation of the host government's military capabilities and requirements, administrative support, and liaison functions. The SAO also promotes standardization and interoperability of host country and U.S. equipment, and promotes armaments cooperation between the United States and its friends and allies. Many SAOs have independent status within the U.S. embassies and are referred to as Offices of Defense Cooperation (ODC); some have armament cooperation contingents.

Administration policy on the SAO/ODC role in support of defense sales overseas has changed dramatically over the last few years. Starting in 1981, the Reagan Administration progressively replaced the previous restrictive guidelines with a policy that fully supports U.S. defense sales overseas. In August 1988, the DoD issued supplementary guidelines addressing the roles that SAOs and ODCs should play in assisting U.S. defense industry sales. Consequently, part of the SAO and ODC mission is to support the marketing efforts of U.S. companies while maintaining strict neutrality between U.S. competitors.

Providing Country Information

Upon request, and subject to such factors as availability of resources and country sensitivity, the SAOs or ODCs can provide industry representatives with the following kinds of unclassified information:

- Data on the defense budget cycle in the host country, including the share of that budget devoted to procurement. Data on the country's current FMS and Military Assistance Program budgets.
- Information on the national decision-making process, both formal and informal, and on decision makers in the Ministry of Defense and military services.
- Information on the national procurement process, to include bidding procedures, legal or policy impediments to procurement from U.S. sources, and other information necessary for the U.S. commercial competitor to deal effectively with the country.
- Estimates as to the kind of equipment the country currently needs to fill defense requirements and that it is likely to need in the future, as well as procurement plans for this equipment as known and appropriate for disclosure.
- Information regarding the marketing efforts of foreign competitors.

- Information on major in-country defense firms and their products. This can assist U.S. firms in identifying possible subcontract support services or exploring teaming, licensing, or other cooperative arrangements.

Appointments

The SAOs/ODCs can also facilitate appointments in the host country Ministry of Defense (MoD) and military services. In order to avoid the impression of SAO/ODC endorsement of a given item or service, making calls for appointments with country officials will normally be done by the industry representatives involved in a marketing effort, unless the host country prefers to work directly with SAOs/ODCs.

Thirty days prior to the proposed visit, industry representatives should provide to the SAO/ODC the following information:

- A synopsis of equipment and services proposed for sale.
- Current export license information, including restrictions and provisos.
- Dates of planned in-country travel/country clearance request.
- Non-proprietary information already provided to the host country, or other contacts concerning the equipment in question.
- Specific support (e.g., briefings, appointments) requested.

U.S. Competitors

Unlike most other countries that sell defense equipment, the United States is likely to have more than one producer of a given weapons system. SAOs/ODCs will maintain neutrality between such competitors. When more than one U.S. competitor is involved, the SAO/ODC should still be able to explain to host country personnel why the purchase of a U.S. system would be to the country's advantage. If asked by a representative of one U.S. company, the SAO can acknowledge whether and when other U.S. vendors have come through the country, but he cannot divulge any marketing strategy or other proprietary information of any U.S. competitor.

Commercial Versus FMS Sales

DoD policy generally has no preference whether a foreign country fills its valid defense needs through FMS or commercial channels. DoD tries to accommodate preference for direct sales, if such a preference is indicated by the contractor, unless the host country requests to make the purchase through FMS or the specific item is restricted to FMS. DoD policy also provides that price quotes will not normally be provided for comparison of FMS and direct sales.

U.S. firms should also have a working knowledge of the major differences between FMS and direct commercial sales. A DoD publication entitled A Comparison of Direct Commercial

Sales and Foreign Military Sales for the Acquisition of U.S. Articles and Services is available through the following office:

Commandant
Defense Institute for Security Assistance Management
DISAM/DIR, Bldg. 125, Area B
Wright Patterson Air Force Base, OH 45433-5000
Tel: (513) 255-2994/3669

Follow-Up

Prior to departing, visiting U.S. contractors should debrief the SAO/ODC and other relevant members of the country team on their experiences in-country. The SAO/ODC will provide any known reactions from host country officials or subsequent marketing efforts by foreign competitors. Embassy staff will also be alerted about obtaining reactions from host country officials and sharing these with industry representatives.

For detailed information on the role of the SAO in support of U.S. defense sales overseas, refer to DoD 5100.38-M within the Security Assistance Management Manual. This can also be obtained from the Defense Institute for Security Assistance Management.

THE RECIPROCAL PROCUREMENT MEMORANDA OF UNDERSTANDING

Background

To promote rationalization, standardization, and interoperability of defense equipment within the North Atlantic Treaty Organization (NATO), Congress enacted the Culver-Nunn Amendment to the fiscal year (FY) 1977 Defense Authorization Act, which authorized the Secretary of Defense to waive the Buy American Act of 1933. Under this authority, the Department of Defense (DoD) negotiated and signed reciprocal procurement Memoranda of Understanding (MOUs) with most NATO countries. A second piece of legislation, the Roth-Glenn-Nunn Amendment to the FY83 Defense Authorization Act, Public Law 97-252, reaffirmed the U.S. commitment to NATO cooperation.

As a result of the Camp David Accords of 1979, DoD also negotiated similar but more limited agreements with Israel and Egypt. These agreements were revised in 1987 and 1988, respectively, and were elevated to the status of reciprocal procurement MOUs. For national security considerations, an agreement also was negotiated with Australia, and more limited agreements were established with Austria, Finland, Sweden, and Switzerland.

MOU Provisions

An MOU is a bilateral agreement between the DoD of the United States of America and the Ministry of Defense of an allied or friendly country. It calls for the waiver of "buy national" restrictions, customs, and duties in order to allow the contractors of the signatories to participate, on a competitive basis, in the defense procurements of the other country. The goal is to promote standardization and interoperability of defense equipment so we may better support each other in wartime.

To comply with the MOUs, the United States waives the Buy American Act, the Balance of Payments Program, and customs and duties on DoD procurements for products originating in the countries with which we have signed such an agreement. Similarly, the allies must waive their "buy national" restrictions.

Not all restrictions are waived by the MOUs. For instance, DoD restricts to U.S. and Canadian sources procurements of any items determined to be vital in case of national mobilization or emergency. In addition, DoD restricts to U.S. sources certain procurements that include classified information or sensitive technology, procurements set aside for small businesses, and any other items restricted by law or regulation. The allies restrict similar items although, in some cases, their restrictions are not as well defined.

The MOU Countries

DoD maintains MOUs with 21 allies and the partner countries are listed in the following chart.

MOU PARTNER COUNTRIES		
<u>NATO</u>	<u>NON-NATO EUROPE</u>	<u>OTHER</u>
Belgium	Austria	Australia
Canada	Finland	Egypt
Denmark	Sweden	Israel
France	Switzerland	
Germany		
Greece		
Italy		
Luxembourg		
Netherlands		
Norway		
Portugal		
Spain		
Turkey		
United Kingdom		

Present Realities

The MOUs have generally served the best interests of the United States, and they have been a good foundation for armaments cooperation. However, relationships with our defense trading partners have changed, and we must adjust to an economically integrated European market. Moreover, pressures for increased allied burden sharing come at a time of European perceptions of a reduced military threat. We must ensure that the MOUs continue to foster

armaments cooperation while preserving business opportunities for U.S. industry in foreign markets.

DoD continues to review these MOUs to reflect the current security and foreign policy environment. Where necessary, DoD will amend them to assure reciprocity for U.S. industry seeking business in the defense markets of our allies, just as they guarantee opportunity for the industries of our allies in the U.S. defense market.

Additional information or copies of the MOUs can be obtained from the following office within the Department of Defense:

Deputy Director of Defense Procurement
(Foreign Contracting)
Room 3C762, The Pentagon
Washington, DC 20301-3060
Tel: (703) 697-9351
Fax: (703) 693-9616

U.S. EXPORT CONTROL REGULATIONS

The U.S. Government controls the export of many of the defense items, dual-use items, and technology mentioned in this guide. U.S. exporters are responsible for compliance with these regulations. The U.S. Department of State controls the export of defense items under the International Traffic in Arms Regulations (ITAR). The U.S. Department of Commerce controls the export of dual-use items under the Export Administration Regulations (EAR).

For information on the export of defense articles, including technical data and technical assistance, U.S. firms should consult with the following offices within the Department of State:

Office of Defense Trade Controls
PM/DTC, SA-6, Room 200
Bureau of Political-Military Affairs
U.S. Department of State
Washington, D.C. 20522-0602
Tel: (703) 875-7050
Fax: (703) 875-6647

Office of Export Control Policy
PM/EXP, Room 2421
Bureau of Political-Military affairs
U.S. Department of State
Washington, D.C. 20522-7815
Tel: (202) 647-4231
Fax: (202) 647-4232

For information on dual-use export controls, U.S. firms should consult with the following offices within the Department of Commerce:

Strategic Trade and Foreign Policy Controls:

Foreign Policy Controls Division
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 2620
Washington, D.C. 20044
Tel: (202) 482-4252
Fax: (202) 482-6088

Commerce Classifications:

Office of Exporter Services
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 1099D
Washington, D.C. 20230
Tel: (202) 482-4811
Fax: (202) 482-3617

SECTION II: COUNTRY PROFILES

AUSTRIA

AUSTRIA

Overview

Austria is a small alpine country located in Central Europe, bordered by Germany, the Czech Republic, the Slovak Republic, Hungary, Slovenia, Italy, Switzerland, and Liechtenstein. Austria has a population of about 8 million and an area of about 34,000 square miles. Its main trading partner is the European Union (EU), of which it has been a member since January 1, 1995. The EU accounted for 66 percent of imports and 63 percent of exports in 1994. Other important trading partners are central/eastern Europe, which accounted for 8.5 percent of imports and 14 percent of exports; the European Free Trade Association (EFTA), which accounted for 6.8 percent of imports and 8.8 percent of exports; and the U.S., which accounted for 4.4 percent of imports and 3.5 percent of exports.

Defense Industry Environment

The Austrian defense budget as a percent of GDP is one of the lowest in Europe, hovering at just below one percent in recent years. Total defense expenditures for 1996 were approximately 20.7 billion schillings or about \$2 billion. The estimated figure for 1997 is 20.9 billion schillings. Of this amount, about \$1.2 billion are fixed costs.

Domestic Defense Industry

The Austrian defense industry is very small. There are no official sales figures published, but estimates by local industry experts put annual sales at or about 1-2 billion (\$100-200 million). In recent years, domestic production has fallen as much as 10-15 percent annually in some defense-oriented sectors.

Local analysts believe that the industry is suffering from two major problems. First, the government has a strict policy of prohibiting the export of lethal and non-lethal defense-oriented goods to countries deemed to have committed human rights violations, or where conflicts take place or threaten to take place, which is termed the *Kriegsmaterialgesetz*. Under this law, the government requires that Austrian defense firms apply for export permission on a case-by-case basis. As a result, it is difficult to conclude a sale, as there is always the risk that a particular order, after months in limbo, will be denied. This law and its implementation virtually rule out profitable overseas sales for Austrian firms. The second problem is the relatively liberal procurement procedures of the Austrian military, which do not explicitly favor Austrian suppliers.

Major buyers of Austrian defense goods, in addition to the Austrian military, are other European military and law enforcement authorities, especially in Spain and Scandinavia. Some

sales have also been made in the ASEAN region. Offsets sales are an important element of Austrian defense sales.

Areas of domestic production strength are armored vehicles, optical instruments, mines, mine detectors, and firearms. The defense industry is represented by an official industry and trade organization at the Federal Economic Chamber, which also produces a periodical publication highlighting Austrian defense production.

Contact: Dr. Dietrich Skalla
Arbeitsgemeinschaft Wehrwirtschaft
Fachverband der Eisen- Und Metallwarenindustrie
Wiedner Hauptstrasse 63
A-1045 Vienna, Austria
Tel. (431) 501 05 3444
Fax. (431) 505 0928

Traditional non-Austrian suppliers of defense equipment to the Austrian armed forces include the following U.S. firms: United Defense (York, PA), Bell Helicopter (Fort Worth, Texas), and General Dynamics Land Division (Detroit, MI).

Defense Opportunities

Much of Austria's current weapons and equipment inventory is outdated and in need of replacement. Current funding, however, is not sufficient to replace everything that needs to be replaced, a situation which is not likely to change in the next several years. Government efforts to reduce deficit spending in order to meet the requirements necessary for entry into the European monetary union, combined with the tradition of meager spending on defense, add up to a generally inauspicious climate for defense expenditures. This having been said, potential upgrade, replacement, spare parts, maintenance, logistics, or service opportunities include the following areas:

Fighter Aircraft

The Austrian military has developed plans to purchase 30 fighters to replace its aging Swedish drakens.

M109 Howitzer Upgrade

Austria will upgrade 120 M109 early version Howitzers to the M109A5 standard.

Main Battle Tank

Austrian military planners have begun to look at replacing the current fleet of M60A3 Main Battle Tanks. Of particular interest to the Austrians are used Leopard IIs currently available from Holland.

Armored Vehicles

Austria intends to purchase a series of new armored vehicles to replace its outdated inventory. These include a Tracked Infantry Fighting Vehicle and a Wheeled Vehicle in several variants to serve in reconnaissance, command, medical, and transport roles.

Communications Equipment

Austrian plans call for a gradual replacement of the current outmoded inventory of tactical radios in coming years and expansion from VHF into UHF frequencies.

MOD Defense Plan

The Austrian defense plan has changed significantly since the end of the Cold War. The threat of war between Warsaw Pact and NATO countries has been replaced with the threat of limited conflicts in the region and the potential for spillover and refugees. In response, the strategy of area defense is being replaced with one of increased mobility and flexibility.

Border control has also gained in importance because cross-border activity, including crime, has increased significantly since the strict travel restrictions of the communist era have fallen. In addition, Austria's eastern borders are now the external borders of the EU.

The end of the Cold War has also caused debate within Austria on the utility of its neutrality. Neutrality served as the basis of Austrian foreign policy throughout the years of east-west confrontation. Recently, however, Austria joined the European Union and has become an active member of the NATO partnership for peace program. The current political debate on Austrian security and what form it will eventually take, Western European Union (WEU), NATO, or something else, will continue for the next several years. Austria consistently contributes troops to U.N. peacekeeping and disaster relief activities.

Defense Procurement Process

Austria and the U.S. have signed a Memorandum of Understanding (MOU) concerning reciprocal defense procurement and armaments cooperation. An extension of the MOU,

originally set to expire in September 1996, is expected to be signed, extending the MOU for an additional five years.

According to the MOU, each country promises fair and equitable opportunity to bid on tenders for military supplies and R&D projects and equipment with a value of at least \$25,000 or its equivalent. The agreement does not cover construction projects or materials. These tenders are made public in the quasi-official daily newspaper, 'Wiener Zeitung', as well as in the federal economic chamber publication 'Internationale Wirtschaft'. Included in these announcements are the subject matter of the contract, time limit on the submission of offers, and the addresses from which solicitation documents can be requested. Moreover, all EU tenders are regularly reported by the Commercial Service's EU office as part of the Trade Opportunities Program through the Commerce Department's International Trade Administration.

There are a few practical problems affecting the competitiveness of U.S. firms in Austrian procurement competitions which should be noted. In the military sector, the Austrian government often requests offset arrangements be provided by the foreign firm as a part of the acquisition. There is also a tendency to favor Austrian suppliers, especially in ailing business sectors. Finally while it is impossible to measure, entry into the European Union has in all likelihood increased the tendency to buy European. For general inquiries about defense procurement in Austria, contact the following agency:

Austrian Ministry of Defense
Mr. Edwin J. Wall, Head of Purchasing
Franz Josefs Kai 7-9
1010 Vienna, Austria
tel: 011-43-1-51595-3418
fax: 011-43-1-51595-2299

Diversification/Commercial Opportunities

Privatization

Austria has an ambitious privatization program that is largely open to foreign investors. Although there is a policy of maintaining Austrian controlling interest over banks and basic industries, there is no specific set of regulations governing this intent. The primary method of privatization is through the Vienna stock exchange.

Presently, state-owned industries employ 15 percent of the industrial workforce and account for 20 percent of exports. The federal railroads and the postal authority have been established as independent public-sector companies and no longer have access to the government budget. Plans for upcoming privatization include companies such as Bank Austria, Creditanstalt Bank, Postal Savings Bank, Austrian Tobacco Works (Austria Tabakwerke), and Oesterreichische Salinen, the former salt monopoly company. These companies and shares of

the newly reorganized Post Und Telekom Austria (PTA) should be listed on the stock exchange within three years.

Aircraft

The market for aircraft and parts is expected to grow 5 percent annually in 1996 and 1997, as air traffic continues to boom. Austria, a net importer of aircraft and parts, produces only motor gliders (i.e, no commercial or passenger aircraft). The U.S. position is very strong in this market segment. The principal end-users of aircraft, parts and equipment are the National Carriers Austrian Airlines, Lauda Air, Tyrolean Airways, and Rheintalflug (a commuter airline) and Charter Airlines.

Computers

Sales of computer hardware and peripherals are expected to grow by up to 20 percent annually through 1997. As the cost of computer equipment falls and computing and data storage capacities increase, the use of computers is becoming more widespread, both at the place of business and at home. Very high rates of growth are expected for PC's and Internet oriented products and services. Industry experts expect that by the year 2000, the market for network oriented computer hardware, software, and services will have doubled in value.

Computer Software

U.S. products have thoroughly penetrated the Austrian computer software market, which, due primarily to downsizing and the expansion of open systems, is projected to grow 8 percent annually through 1997. In particular, the market for databases is expected to increase significantly as emphasis is being put on performance enhancement and the computerization of transactions. Though expert systems are still not expected to be used as basic tools for commercial applications, they should experience high growth rates during the next five years. New Technologies are stimulating demand for new applications, including sophisticated networks, optical storage, image processing, and multimedia.

Environmental Technologies

Currently, Austria's environmental expenditures are equivalent to between 2.6 and 2.8 percent of the country's GDP, making Austria a top per capita spender on its environment. Austria's environmental industry is forecast to continue its rapid growth, supported by a widespread popular consensus about the need to protect valuable natural resources. The largest market segments are waste management and remediation of contaminated sites. U.S. suppliers find Austria a promising market for these areas, as well as for testing/analyzing instruments, incinerators featuring clean burning technology with respect to Austrian standards, sophisticated and specialized equipment for separation and recycling of waste, and innovative waste-to-energy technologies.

Law Enforcement

Investment in law enforcement has been primarily confined to increasing personnel levels. Some of the most problematic areas of criminal activity in Austria are cross-border organized crime (including smuggling of people and goods and the transportation of stolen goods over the border, particularly to the east) as well as a drug trafficking problem.

Non-Defense Key Ministries:

Ministry for Economic Affairs

Amtsgebaeude 1

Stubenring 1

A-1010 Vienna, Austria

Office of the Minister:

Tel. (431) 711 00 5104

Fax. (431) 713 80 14

Ministry for Environment, Youth, and Family

Ministerbuero, Radetzkystrasse 2

A-1030 Vienna, Austria

Office of the minister:

Tel. (431) 515 22 5010

Fax. (43 1) 515 22 5000

Ministry for Science, Transport, and the Arts

Minoritenplatz 5

A-1010 Vienna, Austria

Office of the Minister:

Tel. (431) 531 20 4902

Fax. (431) 533 8206

Ministry of the Interior

Herrengasse 7

A-1010 Vienna, Austria

Office of the Minister:

Tel. (431) 531 26 2452

Fax. (431) 531 26 2240

Doing Business in Austria

Austrians are generally well disposed toward Americans. Following these general rules of Austrian etiquette will help maintain this positive feeling:

Direct Contact

Appointments should be made either by telephone or in writing well in advance, and prospective buyers or distributors should be given the option of determining the date and place. Austrians attach great importance to their titles, thus it is important to address business partners formally and including their titles. The most common university titles are: Doktor (Dr.), Magister (Mag.), Diplom Ingenieur (Dipl. Ing.), and Diplom Kaufmann (OKFM).

Communications

Prompt response to letters and faxes is very important, for it helps to shrink the distance between Austria and the U.S.. Some local firms have reported negative experiences in trying to contact U.S. firms, having to go through too many organizational layers and sometimes never getting a response at all. The exporter who can communicate in German will be much rewarded, even though most Austrians speak at least rudimentary English.

Selling Techniques

Austrians tend to place more emphasis on quality than price, especially for larger purchases. The quality of a product should therefore be its main selling point. Austrians are generally looking for long-term business relationships rather than immediate sales and profit. Hard selling is generally counterproductive.

Defense Business

The military procurement process is best approached through the SAO and the Defense Attache at the U.S. Embassy. These offices are well informed about ongoing competitions, and are in an excellent position to help U.S. firms gain access to the appropriate decision-makers in the Austrian Ministry of Defense.

Barriers to Trade

Austria is part of the EU, and thus adheres to the EU tariff and quota schedules. Labeling and marking requirements, standards, and licensing requirements can be seen as de facto barriers to trade, and warrant some attention.

Labeling and Marking Requirements

Efforts are currently underway to harmonize EU labeling and marking requirements along with quality and safety standards throughout the EU. Ultimately, as the EU standards harmonization process is completed, a CE mark will be required for most U.S. manufactured imports. Until that time, however, the regulations are an often frustrating mix of national, EU, and international requirements. Products that are inadequately labeled are not turned away at the

border. It is the responsibility of the person importing the product to make sure products are certified and marked before they come into circulation.

Standards

The harmonization of standards requirements is being tackled by the EU on a product-by-product basis. In each case, full implementation follows only after a transition period. This mix of national and EU standards requirements can be frustrating for the U.S. exporter. Those products for which an EU directive has been issued are subject to EU standards requirements which supersede any national requirements. Manufacture goods falling under an EU directive must be tested and certified, and carry the "CE" mark in those countries in which the transition period has expired. Those products for which no directive has been issued continue to be subject to national requirements.

Both EU requirements and the standards for an Austrian quality or performance mark will in many case require that a product be modified. Even if the product does not require modification, it will often require testing and certification before it can be marketed. Naturally, proof of prior certification by other authorities is taken into consideration and in many cases speeds up the certification procedure in Austria.

Import/Export licensing (including transit imports) for military equipment (kriegsmaterial): products which fall under the definition of kriegsmaterial are listed in the Austrian Federal Law Gazette (Bundesgesetzblatt) 540 of the year 1977. This list comprises all goods which are specifically designed for a military purpose, lethal and non-lethal. In order to import or export such materials, a firm or a private person must have two licenses: a license to use or sell the equipment, and a license to import or export the particular shipment, granted on a case-by-case basis. The information that must be supplied for every request includes: a description of the goods, an exact number of units to be imported, where they are from, how they will be transported, and the prospective end use. The granting of import and export licenses is relatively strict. Applications can be requested from the Austrian Ministry of the Interior.

End-user and trading licensing

In addition to the permission to import or export a particular shipment of military equipment, it is also necessary to have a license for use or sale of such items, called a Gewerberechtliche Bewilligung. This license is granted to companies as well as private persons by the Ministry of Economics. These licenses are relatively difficult to get. In order to find out if a firm has such a license, it is necessary to contact the provincial Chambers of Commerce where the firm is located. There are nine such Chambers in Austria:

Wirtschaftskammer Wien

Stubenring 8-10

A-1010 Vienna, Austria
Tel. (431) 514 50-221
Fax. (431) 514 50 487
Contact: Dr. Guenther Schoen, Director

Wirtschaftskammer Niederoesterreich
Herrengasse 10
A-1010 Vienna, Austria
Tel. (431) 53 466-336
Fax. (431) 53 466-568
Contact: Dr. Theodor Zeh, Director

Wirtschaftskammer Oberoesterreich
Hessenplatz 3, PF 253
A-4010 Linz, Austria
Tel. (43732) 7800-280
Fax. (43732) 7800-525
Contact: Mag. Alfred J. Waldbauer, Director

Wirtschaftskammer Salzburg
Julius-Raab-Platz 1, PF 51
A-5027 Salzburg, Austria
Tel. (43662) 8888-351
Fax. (43662) 8888-588
Contact: Dr. Wolfgang Gmachl, Director

Wirtschaftskammer Tirol
Meinhardstrasse 12-14, PF 570
A-6021 Innsbruck, Austria
Tel. (43512) 53 10-249
Fax. (43512) 53 10-431
Contact: Dr. Werner Plunger, Director

Wirtschaftskammer Vorarlberg
Wichnergasse 9, PF 5
A-8600 Feldkirch, Austria
Tel. (435522) 305-302
Fax. (435522) 796-16
Contact: Dr. Helmar Stefko, Director

Wirtschaftskammer Kaernten
Bahnhofstrasse 40-42, PF 71

A-9021 Klagenfurt, Austria
Tel. (43463) 58 68-2868
Fax. (43463) 58 68-264
Contact: Prof. Dr. Dkfm. Fritz Jausz

Wirtschaftskammer Steirmark
Koerblergasse 111-113, PF 1038
A-8021 Graz, Austria
Tel. (43316) 601-680
Fax. (43316) 601-595
Contact: Dr. Bbenno Rupp, Director

Wirtschaftskammer Burgenland
Julius-Raab-Strasse 1, PF 61
A-7001 Eisenstadt, Austria
Tel. (432682) 695-21
Fax. (432682) 695-19
Contact: Konsul Prof. Dr. Hans
Hahnenkamp

Once the license has been granted, it is valid
until revoked. To apply, a form can be
requested from:

Ministry of Economics
Amtsgebaeude 1
Stubenring 1
A-1010 Vienna, Austria
Tel. (431) 711 00-5926
Fax. (431) 714 2718
Contact: Dr. Manfred Steiner

Export Control

The Kriegsmaterialgesetz (War Materiel Law): It is against the law for Austrian firms to export lethal or non-lethal defense-oriented equipment (Kriegsmaterial) to countries in which there is a conflict or in which a conflict threatens to take place, or to countries which are deemed to have violated human rights. This law is unlikely to be lifted in the foreseeable future. Export permission must be requested on a case-by-case basis. There is no comprehensive list of countries to which the export of military equipment is forbidden. In order to avoid the possibility this regulation be skirted through reexport from a third country, the country to which weapons are consigned must sign an end-user certificate. More detailed information about export control can be requested from:

Ministry of the Interior
Herrengasse 7
A-1010 Vienna, Austria
Tel. (431) 531 26-2201
Fax. (431) 531 26-2114
Contact: Mr. Josef Gittel

Austria is a member of key multilateral non-proliferation arrangements to control the export of nuclear, biological and chemical goods, items and technologies, as well as dual-use items, particularly to countries under international sanctions. The transit, export, and re-export of such goods requires specific license from either the Austrian Ministry of Economic Affairs, Ministry of Interior and/or the Ministry of Defense.

Foreign Investment

The government of Austria generally welcomes all foreign direct investment, particularly those investments which create new jobs in high technology, capital intensive industries, improve productivity, replace imports, increase exports, and do not have a negative impact on the environment. Austria's basic policies toward foreign direct investment and investment-related payment transactions are not expected to change in coming years.

A large number of foreign firms, including several large U.S. companies, have invested in Austria and most have expanded their original investment over time. There are no formal sectoral or geographic restrictions on foreign investment, although investment in sectors with excess capacity, such as steel, textiles, and paper, is not encouraged. Financial preference and tax incentives within EU parameters are offered to firms undertaking projects in economically depressed areas and underdeveloped districts on Austria's eastern borders. Some of these geographic areas are also eligible for subsidies under EU programs. The only instances of local opposition to investment in the manufacturing sector have been due to environmental concerns.

Austrian patent and intellectual property laws are consistent with international standards. Austria is a member of the WIPO as well as the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Patent Cooperation Treaty, the Geneva Phonograms Convention, and the Brussels Satellite Convention. While there are no estimates as to the losses to U.S. firms caused by intellectual property infringements in Austria, they are believed to be negligible. For more information about Austrian patents and norms, contact:

Desterreichisches Patentamt
(Austrian Patent Office)
Kohlmarkt 8
A-1010 Vienna, Austria
Tel. (431) 534 24-0
Fax. (431) 534 24-110

U.S. Government Points of Contact in Austria:

Listed below are useful points of contact for U.S. firms that are interested in the Austrian market.

U.S. Embassy

The Commercial Service
American Embassy
Boltzmanngasse 16
A-1090 Vienna, Austria
Tel. (431) 31339
Fax. (431) 310 6917
Contact: Stephen Craven, Commercial
Counselor

United States Security Assistance Office
American Embassy
Boltzmanngasse 16
Tel. (431) 31339
Fax. (431) 310 6918
Contact: Major Steven Winkie

United States Defense Attache Office
American Embassy
Boltzmanngasse 16
Tel. (431) 313 39
Fax. (431) 310 6918

Contacts: Col. John Fairlamb (Defense and
Army)
Col. Dale Hollrah (Air Force)

American Chamber of Commerce in Austria

Porzellangasse 35
A-1090 Vienna, Austria
Tel. (431) 319 5751
Fax. (431) 319 5151
Contact: Dr. Patricia Helletzgruber,
Secretary General

BELGIUM

BELGIUM

Overview

Belgium, roughly the size of Maryland, has a population of ten million. As a developed country, Belgium has all the opportunities of any other industrialized society but on a smaller scale. The Belgian defense industry is fully privatized and is centered around the manufacturing of components, subassemblies, small arms, parts and munitions. Despite a defense budget freeze, opportunities are available in dual-use fields such as EUROCONTROL aviation systems, shipbuilding and repair, and various new systems.

Procurement methods and procedures followed by the Belgian Ministry of Defense (MOD) are similar to those used by the U.S. Defense Department. There is a central procurement office for high ticket items as well as separate offices for each branch of the Belgian Armed Forces. Belgium is also the site for NATO headquarters and the Supreme Headquarters Allied Powers Europe (SHAPE), both of which offer significant procurement opportunities for large and small U.S. companies.

Defense Industry Environment

All government ministries have had their budgets severely reduced, and the Ministry of Defense is no exception. The defense budget as of January 1, 1997 was \$3.07 billion. This budget has been frozen (and will not change even to account for inflation) through 1997. Accordingly, there will be no increase in current or projected spending. Indeed, the budget will decrease in real terms. Despite budget restrictions, the Belgian military is trying to modernize as it simultaneously reduces the total size of its military forces.

The Belgian government allocates 6.1% of its total budget for defense spending. The defense budget is 1.32% of GDP. Approximately 25% of the 1997 MOD budget, or \$750 million, has been allocated to procurement.

Belgium's defense production is concentrated in subassemblies, small arms and components rather than weapon systems or platforms. Employment and output in the arms industry have already declined sharply, due in part to competition from lower cost third world producers. Given severe budget constraints, the changing strategy of NATO, and the requirement to withdraw the First Belgian Corps from Germany within the next four years, new procurement has been drastically curtailed, drawn out, and in some cases canceled.

Belgian business is largely grouped into federations. With 1,200 member companies employing 250,000 workers, Fabrimetal is the country's largest and most important manufacturing federation. Fabrimetal's 25 trade groups fall into four main areas: primary

processing of metal and plastic products, transport, mechanical engineering, and electrical and electronic equipment software. Fabrimetal is working to support subcontractor activities, putting primary contractors in touch with subcontractors and helping subcontractors conform to the new requirements of the market. For general information, contact:

Fabrimetal
Rue des Drapiers, 21
1050 Brussels, Belgium
Contact: Jules Crochon
Director of External Relations
Tel. 32/2/510.24.23
Fax. 32/2/510.23.01

For information on the Belgian defense industry, contact:

Belgian Defense Industry Group
Fabrimetal
Rue des Drapiers 21
B-1050 Brussels, Belgium
Contact: Roger Godechoul, Director
Tel. 32/2/510.25.20
Fax. 32/2/510.23.01

As a small European country, Belgium cannot maintain a large defense industry based on internal requirements. Instead, the Belgian defense industry relies on export of components or participation in programs as a subcontractor. Major areas of Belgian defense industry capabilities include:

- Aircraft structures and engines;
- Defense electronics;
- Small arms and ammunition; and,
- Shipbuilding.

Non U.S. foreign suppliers of equipment to the Belgian military are very active and often very successful. They have the advantage of being located close to their customers and understanding of local business practices. In short, foreign competition in Belgium is fierce and U.S. firms need to undertake extensive marketing efforts if they are to be successful against these competitors.

Many third country companies with Belgian subsidiaries also sell products made in their home countries. These include: GIAT, France; the Alcatel Group of companies, France; Siemens AG, Germany; Sait-Radio Holland Group, the Netherlands; and Delft Instruments Group, the Netherlands.

Defense Opportunities

Despite its small size, Belgium offers a variety of defense trade opportunities for U.S. firms. These opportunities can be extracted from the Belgian military's investment plan and are listed in chart below. The following is the seven-year military investment plan for the years 1993-2000 and includes system requirements. All figures are in U.S. Dollars using 32BF/dollar for conversion.

Program	Cost	Timeframe
Air Force		
F-16 Modernization	\$333.5M	1993-2000
VHF Radios	\$9.8M	1993-1997
Seros Radars	\$25M	1993-1997
Seeking Radars	\$7.82M	1993-1995
Army		
RITA	\$140.63M	1993-2000
1.9 Ton Trucks	\$156.25M	1995-2000
105mm Ammunition	\$12.51M	1996-1997
Navy		
Frigate Modernization	\$31.25M	1994-1998
Minesweepers	\$393.75M	1993-2000
Other		
Information Technology	\$18.75M	1994-1998
Military message handling system	\$40.63M	1994-1999
Medical Service Equipment	\$18.75M	1994-1998

In addition to the list above, electronic warfare systems and missile systems are under consideration by the Belgian MOD. The Navy is also evaluating the purchase of four mine-sweepers.

Defense Procurement Process

The Service General des Achats (SGA) is the procurement office of the Belgian military and publishes the pamphlet, "The Joint Procurement Service", describing its mission, organization, and general acquisition process. The SGA serves all the functions and holds the mandate to issue Requests for Proposals (RFPs) and sign contracts, just as the PCO (Procurement Contracting Officer) does in the U.S. military. They are the focal point for proposal evaluations as far as the "boiler plate," terms and conditions, and pricing are concerned.

Procurement of items by the government of Belgium, which exceeds 1.25 million Belgian francs (approximately \$40,000), must be announced in the "Bulletin des Adjudications." This is a weekly supplement to the "Moniteur Belge" (available in Dutch and French) published by the Ministry of Justice. Annual subscriptions cost 3,000 Belgian francs (approximately \$95.00) and may be ordered by writing to:

Moniteur Belge
Rue de Louvain 42
1000 Brussels, Belgium

The government of Belgium uses procurement procedures similar to the sealed bid procurement system in the United States. Telegraphic offers are not acceptable for initial bids but are acceptable for changes to offers before opening of bids, provided they are confirmed by letter.

When purchasing military equipment, the Ministry of Defense solicits bids by advertising to the public. Procurement of new major defense equipment is normally accomplished through direct solicitation from national and foreign firms.

There are no U.S. commercial services that publish information on Belgian contracting opportunities. However, the U.S. Embassy regularly reports such opportunities for publication in the Commerce Business Daily (CBD). In addition, there are two conferences held annually by the Belgian National Armaments Director to announce upcoming procurements to industry. The first conference took place in November 1994. The second conference will be held in April 1995. For additional information regarding the conference, contact:

Major General Brunin
National Armaments Director
Quartier Reine Elisabeth
1 Rue d' Evere
1140 Brussels, Belgium
Tel. 32/2/701.40.23

Fax. 32/2/701.66.20

The Belgian Joint Chiefs of Staff handle all procurement for the Ministry of Defense. Items purchased through this office are typically large, expensive equipment (ships, aircraft, high-tech weapon systems). The Belgian Armed Forces also has procurement offices for each of its branches as listed below.

Army

Col. I. Pattijn
Chef de Section
Forces Armees
Service de l'Etat-Major General
Service General des Achats
Section des Achats des Materiels Terrestres
Quartier Reine Elisabeth
Block 4-B-46
Rue d'Evere 1
B-1140 Brussels, Belgium
Tel. 32/2/701.31.04
Fax. 32/2/701.32.30

Navy

Commander Ravet
Chef de Section
Service General des Achats
Service des Achats des Materiels
Force Navale (SDAZ)
Quartier Reine Elisabeth
Rue d'Evere 1-B
1140 Brussels, Belgium
Tel. 32/2/701.31.03
Fax. 32/2/701.66.82

Air Force

Col. Robert Dewitte
Chef de Section
Forces Armees
Service de l'Etat-Major General
Service General des Achats
Sous-Section des Achats des Materiels

Force Aerieenne
Quartier Rein Elisabeth
Block 4-B- 1er etage
Rue d'Evere 1
B-1140 Brussels, Belgium
Tel. 32/2/701.32.40
Fax. 32/2/701.49.14

Joint Chief of Staff

General Major Fournier
Chef du Service General des Achats
Service General des Achats (JS/SGA)
Quartier Reine Elisabeth
Rue d'Evere 1
B-1140 Brussels, Belgium
Tel. 32/2/243.32.83
Fax. 32/2/243.35.47

All Belgian manufacturers of defense equipment are already privately controlled, though several still have some regional government support that takes the form of minority share ownership. In addition, several of Belgium's defense companies have foreign involvement, primarily French, although U.S. firms also hold some interests in various entities.

While the industry remains relatively free of government control, influence by the two Belgian regions of Flanders and Wallonia is present. The Belgian Parliament has been known to put pressure on the Ministry of Defense for contracts, while the two regions, Wallonia and Flanders, also compete heavily for bids. A recent case where all three government bodies were involved was the midlife update of the F-16 aircraft. Because of competition among the regions and the bureaucratic problems that ensued, the project was nearly taken away from Belgium and awarded to The Netherlands. The bulk of Belgium's defense industry is located in Wallonia, which takes a strong interest in it, including direct financial aid and involvement. Because of the heavy Wallonian involvement in Belgium's defense industry, the Flemish region and parties based in the region have occasionally not been very supportive of legislation or aid to the Belgian defense industry. Once, this caused the fall of the coalition national government.

Although selling equipment to the Belgian military may appear complicated, in practice the procedure works efficiently. A primary step is to contact the Belgian Embassy Military Supply Office (address listed below) that is both an information providing office and purchasing office.

For more direct involvement, U.S. companies should appoint a Belgian agent familiar with the market for military equipment. Belgian companies providing such services include:

Aero Systems S.A.
Chemin des Chasseurs, 10
B 1328 Ohain, Belgium
Tel. 32/2/653.00.33
Fax. 32/2/653.15.17

Contact: Mr. Michael Mitchell

Fisette S.P.R.L.
Rue de Vise, 155-157
B 4602 Cheratte, Belgium
Tel. 32/41/62-11-16
Fax: 32/41/62-11-16
Contact: Mr. Michel Fisette

Bostyn, Wapenkantoor
Recolettenstraat, 19
B 8500 Kortrijk, Belgium
Tel: 32/2/56/35-55-55
Fax: 32/2/56/67-04-03
Contact: Mr. Willem Bostyn

For the names of other Belgian agents and distributors specializing in military sales, as well as advice on selling to the Belgian military, please contact the Office of Defense Cooperation at the American Embassy in Brussels (address listed below).

Specific questions on Belgian military procurement regulations may be forwarded to the following agencies.

Belgian Embassy Military Supply Office
8810 Spectrum Drive
Landover, MD 20785-4762
Tel. (301) 350-3901 or 3902
Fax. (301) 350-5892

Service General des Achats (JS/SGA)
Quartier Reine Elisabeth
Rue d'Evere
1140 Brussels, Belgium

Tel. 32/2/243.32.83
Fax. 32/2/243.35.47

Office of Defense Cooperation
United States Embassy
Blvd du Regent 27
1000 Brussels, Belgium
Tel. 32/2/513.38.30 Ext 2650
Fax. 32/2/514.56.66

The military procurement process should be approached through the Office of Defense Cooperation located at the Embassy. This office is well equipped to utilize its numerous contacts in the Belgian military service staffs, joint staff, and Ministry of Defense to help American business. To assist in procurement efforts, ODC Belgium has prepared a manual entitled, "Survey of Belgium Defense Procurement Environment." This manual describes the necessary steps needed to solicit the Belgian military with procurement proposals. Please contact ODC Brussels, at the address listed above.

Diversification/Commercial Opportunities

There are many products that are sold to the military that also have dual-use, civil, land, marine and aeronautic applications. Electro-optical products for defense can be used for civil surveillance projects. Also, police equipment, fire resistant clothing, and protective clothing for the civil sector are in demand.

Products involved in maritime radio communication and navigation aids support international shipping companies and shipyards. There is also a market for electronic systems in civilian and military communications and real time information process management.

Activities relating to the construction, repair, maintenance and modification of various civil and military aircraft or helicopters should be considered. European space programs such as EUROPE III, ARIANE, COLUMBUS, HERMES, and EUREKA are also viable market opportunities.

Exporters should not ignore the Ministry of Defense as a customer for non-lethal goods and services. The Ministry of Defense and the units it controls purchase a wide variety of ordinary goods and services.

Telecommunication Services

The total telecommunications market in Belgium grew by 12.2 percent in 1995. This growth was largely attributed to the telecommunications services market which grew by 14 percent. As expected, the liberalization and deregulation of the telecommunications market will continue to have a very favorable effect on the telecommunications services market. Due to growing competition, the Belgian telecom operator, BELGACOM, is under great pressure to broaden and modernize its telecom services. Furthermore, the partial privatization of BELGACOM and Ameritech's involvement in the company have increased this pressure. As in the rest of Europe, value-added network services are subject to free market competition in Belgium. Several foreign and U.S. companies are already active in the value-added network services market in Belgium. In 1998, voice services will also be liberalized in Belgium. This is important, since traditional telephone services still represent the largest share of the

telecommunications services market. Currently, only voice services for closed-user groups are offered in competition.

The subsector with the greatest growth potential is mobile telephone services, which grew by 66.1 percent in 1995. Anticipated growth rates for mobile telephone services market are 56.1 percent and 49.5 percent respectively. Switched data services are the next largest growth area with a 57.2 percent growth rate in 1995, 83.1 percent in 1996, and 39.3 percent in 1997. CATV services are expected to grow by 50 percent in 1997. By 1997, the larger part of the dense Belgian cable network will be turned into a broadband network. Best sales prospects are mobile voice and data communications services, packet switched network services, frame relay services, ISDN network services, and value-added network services.

Computer Software

Software sales in Belgium were considered slow during 1995, particularly for standard applications. However, a sharp sales increase of at least 13 percent is anticipated in 1996 and 1997. This is due to rising demand for software with productivity, networking, database and utility applications. Most of the new IT applications will be based on a client/server architecture which will lead to a growth of this market segment in all industry sectors of the Belgian economy. Belgian IT managers are expected to re-engineer or replace almost 50 percent of their current applications in 1996 and 1997. Half of the outdated applications will be internally rewritten or re-engineered; the other half will be replaced by externally bought software.

The Belgian software market follows the U.S. market very closely. New product announcements by leading suppliers in the U.S. are introduced in Belgium with only a few months delay. Best prospects in Belgium are applications software for businesses and home users. However, the market for development tools is also growing rapidly. This market is expected to continue to grow about 14 percent in the next couple of years. Windows-based programs and applications are expected to continue to sell very well. Macintosh-based applications also continue to sell well, but DOS-based applications are no longer in demand.

The Belgian market has also entered into the age of the Internet. Spectacular growth of Internet, WWW, groupware, and EDI software products is anticipated in the coming years.

Computers and Peripherals

The outlook for the Belgian computer hardware market continues to be one of vigorous growth. Belgian companies and government institutions are increasing investments to further automate their office and workshop environments. Businesses continue to adopt client/server architectures. This, in turn, contributes to the uninterrupted decline in proprietary systems for this market. Computer hardware sales in Belgium are expected to grow by 9 percent in 1996 and 1997, mainly as a result of increasing use by smaller companies (100-200 employees). Growth projections for 1996 and 1997 for the Belgian PC market are as high as 25 percent, while a six

percent increase is anticipated for the mainframe sector. Some 300,000 PCS were sold during 1995 in Belgium. The estimated installed PC base in Belgium is 19 PCS per 100 inhabitants, or 1.9 million units. Market leaders are Compaq with 12.7 percent market share, followed by IBM (8.5 percent), Apple (6.5 percent), Vobis (4.7 percent), and HP (4.6 percent). Personal computer expenditures by Belgian companies in 1995 amounted to \$852 million and are expected to total \$1.06 billion in 1996. The growth in the PC market is primarily due to the flourishing home and small business markets. An additional factor is the increasing popularity of the Internet and the WWW. A large majority of Belgian businesses (some 70 percent) already use the Internet and the WWW. Many of these companies anticipate purchasing equipment in the next 12-16 months which will permit them to maintain their own web sites. The best prospect niches in the hardware sector are client/server equipment, network hardware, work stations, datacom equipment, PC's and portables, and optical media.

Aircraft and Parts

The two major carriers in Belgium are SABENA, with its subsidiaries DAT and SOBELAIR, and EUROBELGIAN AIRLINES (EBA), which was taken over by the UK carrier VIRGIN. By the year 2000, SABENA will have to replace eleven 737's. SWISSAIR has replaced AIR FRANCE as SABENA's partner, with 49% of its capital. It is, therefore, expected that SABENA's fleet will be renewed in a manner consistent with SWISSAIR's fleet. EBA is a fast-growing charter company that currently operates eleven 737's. SABENA TECHNICS plays an important role as a third party repair and maintenance station. The only significant general aviation company is ABELAG. It imports, maintains and operates several brands of general aviation planes, and also provides ground handling for heads of state planes. The number of Belgian companies involved in manufacturing and supplying aircraft parts is approximately 120. The best way to contact them is via their trade associations FLAG and GEBECOMA. To enter the military market, U.S. suppliers should contact the Office of Defense Cooperation (ODC) via the U.S. Embassy.

Telecommunications Equipment

The telecommunications equipment market in Belgium grew by 6.5 percent in 1995, but is forecast to increase by only 5.6 percent in 1996 and 1997. As a consequence of growing competition in the telecommunications equipment market, prices are declining and margins are shrinking. Market growth comes from the private networks sector which increased 12.1 percent in 1995, is expected to grow 14.5 percent in 1996, and is forecast to increase 16.9 percent in 1997. Revenues from supplies, installation, and maintenance of customer premises equipment, including PABXs, faxes, and modems, are also increasing. The equipment supplied BELGACOM registered a growth figure of 3.2 percent in 1995, but is expected to stagnate in value terms for 1996 and 1997. However, it is anticipated that network infrastructure investments by the second GSM-network operator and by the cable operators for the second voice and multimedia network will compensate for this loss. The most promising subsectors are: ISDN terminal equipment, MAN and WAN network equipment, mobile radio equipment

including GSM and DECT, telecommunications transmission network equipment(SDH and ATM), broadcasting equipment, and voice-processing systems.

Automotive Parts and Service Equipment

There are 4 million cars registered in Belgium and 13,000 maintenance and repair outlets. In addition, Belgium has a very strong assembly industry (GM, Ford, VW, Volvo, and Renault) that assembles 1.2 million vehicles annually. Europeans in general, and Belgians in particular, tend to keep their cars longer than Americans. In Belgium, 54% of the cars are over five years old. While American garage and test equipment have always been highly respected, U.S.-made automobiles are now also experiencing an important resurgence in popularity. Best subsectors include anti-theft devices, fast-rotating replacement parts, gadgets for in-car entertainment, and car-maintenance products.

Pollution Control Equipment

Belgium is one of the most densely industrialized and populated areas in the world. As a consequence, it faces numerous pollution problems. The chemical industry, with annual sales of \$27 billion, is one the country's economic mainstays. The Antwerp area has the world's second largest complex of chemical industries, after Houston. Belgium is now actively implementing EU directives into Belgium regulations. More importantly, these new regulations are being enforced with expensive penalties. Therefore, companies are making sizeable investments to come into compliance. Sixty percent of Belgian companies are planning environmental equipment investments of at least \$32,000 per company, over the next two years. Best subsectors include: equipment for filtering and processing effluents, scrubbers for waste incinerators, water and gas analysis instruments, programmable process controls, sludge treatment technologies, soil-remediation technologies, and recycling equipment, especially for used packaging.

Medical Equipment

Overall, the sophistication and quality of medical services in Belgium match that of any other country in northern Europe. In addition, Belgium has a well developed national medical insurance system covering almost the entire population. Annual payments to providers total nearly \$19 billion. In 1991, Belgium ranked 13th among the 24 OECD nations in terms of health care spending as percentage of GDP, and fifth out-of the then twelve EU member states.

There is ready acceptance in Belgium of U.S.-sourced equipment, especially that with FDA approval. Only 15% of local medical equipment requirements are manufactured locally. Most promising subsectors include: electro-diagnostic apparatus, infant care equipment, intensive care equipment, all medical systems and equipment facilitating shorter stays in the hospital, non-invasive techniques reducing the need for surgery, advanced medical imagery, and

electro-diagnostic systems. In the field of medical electrical equipment, the United States is Belgium's top supplier.

Electric Power Systems

Sixty percent of Belgium's electric power output is from nuclear generators. Coal generating plants produce twenty-five percent, and natural gas from Algeria, the Netherlands and the North Sea, mainly Norway, accounts for twelve percent. Production increased 2.2% in 1995, in line with the general improvement in industrial output in Belgium. Continued steady growth is expected in 1996 and 1997. A program of investment, well coordinated between the production and distribution companies, provides for steady modernization and maintenance of the system. The Belgium National Equipment Program for Electricity Generating and Transmission Facilities (1995-2005) calls for a \$9 billion investment in new plant and equipment for new and refurbished facilities, over a ten-year period. With the low dollar exchange rate, U.S. manufacturers are well placed to share in this business. However, there is strong competition from manufacturers in the EU.

The following is a list of contacts for Non-Defense Ministries that procure dual use products.

Ministry of Foreign Affairs Rue des Quatre-Bras 2 1000 Brussels, Belgium	Tel. 32/2/219.03.80 Fax. 32/2/218.81.86
Office of the Minister Tel. 32/2/516.82.11 Fax. 32/2/511.63.85	Ministry of Agriculture Rue Marie-Therese 1 1040 Brussels, Belgium Office of the Minister Tel. 32/2/211.06.11 Fax. 32/2/219.61.30
Ministry of Economic Affairs Square de Meeus 23 1040 Brussels, Belgium Office of the Minister Tel. 32/2/506.51.11 Fax. 32/2/514.24.72	Ministry of Health Rue de Belliard 51 1040 Brussels, Belgium Office of the Directeur General Tel. 32/2/233.41.11 Fax. 32/2/230.10.67
Ministry of the Budget Astro - Toren Sterrenkundelaan 14 Bus 23-26 1030 Brussels, Belgium Office of the Directeur General	Ministry of Transportation and Communications Rue de la Loi 65 1040 Brussels, Belgium Office of the Minister Tel. 32/2/237.67.11 Fax. 32/2/230.18.24

Ministry of the Environment
Rue de Belliard 51
1040 Brussels, Belgium
Office of the Minister

Tel. 32/2/233.51.11
Fax. 32/2/230.10.67

In addition, there are two regional associations for manufacturers of airplane parts and equipment. They can assist U.S. companies in locating Belgian joint-venture and licensing partners.

Wallonia Contact:
Mr. Terrasson, Director
Gebecoma
Rue de Strasbourg 3
B1130 Brussels
Tel; 32/2/729.56.13
Fax: 32/2/729.55.92

Flanders Contact:
Alex Van Hove, Managing Director
Flemish Aerospace Group (FLAG)
Brouwersuliet 15, Box 7
B - 2000, Antwerp, Belgium
Tel. 32/3/231.16.60
Fax. 32/3/233.76.60

The Belgian counterpart to the U.S. Federal Aviation Administration is the Regie Des Voies Aeriennes/Regie der Luchtweegen (R.V.A./R.L.W.). For information, contact the Division of Air Traffic Control and Airplane Systems at:

Arnold Vandenbroucke, Director
R.V.A./R.L.W.
CCN Rue du Progres 80
1210 Brussels, Belgium
Tel. 32/2/212.22.02
Fax. 32/2/212.22.00

The Belgian Airport Authority works out of the R.V.A./R.L.W. office. For further information, contact the following organization:

Eric Kirsch, Administrative Director
R.V.A./R.L.W.
CCN Rue du Progres 80
1210 Brussels, Belgium

Tel. 32/2/212.20.00
Fax. 32/2/212.20.35

Doing Business in Belgium

Although Belgium is a small country with its population of ten million, it is fortunate to be located in the heart of one of the most densely populated regions of Europe, and in the largest concentration of industry anywhere on the continent. With a market of 320 million affluent customers, Belgium is an ideal location for commercial, distribution and administrative operations for the European market.

Belgium offers a remarkable diversity in language, culture, labor market profiles, skills, and attitudes, as well as current economic and political forces. Business is conducted similar to that in the United States. However, since the AGUSTA helicopter scandal, military procurement is very sensitive and proceeds strictly according to law. Therefore, it is mandatory that bidders comply with every requirement in an RFP as well as adhering to the actual contract.

Belgium is a faithful adherent to EU laws and directives, and Belgian business stands to benefit significantly from a single European market in the 1990s. The openness of the Belgian market should not, however, make American companies think that doing business in Belgium is like doing business next door in the United States. U.S. companies need to be aware of cultural and linguistic differences. There are also regional economic differences, with some parts of the country wealthier than other parts.

In addition, Belgian distributors tend to be small and specialized. They also do not have ready access to inexpensive capital, and they are somewhat conservative when it comes to risk taking. Distributors are also protected against sudden or unjustifiable termination of distribution agreements. This protection includes measures assuring the right to receive reasonable notice of termination and compensation for loss of income. In addition, the EU has passed similar legislation protecting agents. U.S. firms should have adequate legal advice in drawing up a representation agreement in Belgium and throughout the EU. Lastly, the Belgian importer is looking for the best quality at the best price. American products and technology are highly regarded, but Belgium is a highly competitive market. There are many competitors in the marketplace, and U.S. suppliers must be aggressive to compete successfully.

Export Controls

Belgian export controls apply to the export and reexport of military (conventional weapons) and dual-use items, as well as materials for weapons of mass destruction. Belgian companies send all applications for export and reexport to the Office of Quotas and Licenses in the Ministry of Economic Affairs. At that point, the process varies depending on whether the export is a conventional weapon/dual use item or a nuclear-related item.

If the item is a conventional weapon or dual use item, the Office of Quotas and Licenses will first determine whether, based on law and its experience, it will approve the item for export. If the Office makes a positive determination, it then sends the request for further approval to one of two federal ministers depending on the location of the Belgian company involved in the export. Export licenses for Flemish companies are sent for approval to Foreign Minister, Willy Claes, while Walloon company export licenses are sent for approval to Minister of Foreign Trade, Robert Urbain. Once approved or disapproved by the respective ministry, the applications are returned to the Office for final disposition.

If the item is nuclear or nuclear-related, the application must be approved (or disapproved) by the Minister of Economic Affairs, after consultation with and advice from the National Non-Proliferation Board. The Board consists of representatives of five federal ministries, including Trade, Foreign Affairs, Health, Energy, and Economic Affairs.

Technology transfer is handled effectively by using end user certificates. An example was the recent sale of Mirage aircraft by the Belgian government to Chile. Before the transfer of goods was allowed to take place, the U.S. removed originally installed sophisticated software.

For additional information on export control issues, please contact for the Office of Quotas and Licenses:

Mr. Michel Moreels
Office of Quotas and Licenses
Ministry of Economic Affairs
Rue de Mot 24-26
1040 Brussels
Tel: 322/233-6193
Fax: 322/233-6194

As a member of the European Union, Belgium follows the common regime and applies the proscribed lists. Upcoming changes are likely to include new EU customs regulations and policies which will come into effect as a result of the Maastricht Treaty, implementation of a common EU export control regime, changes in the Wassenaar regime, and implementation of the so-called ECOTAXES. American exporters should always consult their agent and a reputable freight forwarder who should be knowledgeable of recent changes in documentation requirements.

Offsets

The Belgian government has established a policy that requires all foreign contractors to provide offset/economic compensation for defense procurement exceeding fifty million Belgian francs (approximately \$1.5 million). The amount of offset varies with each contract, but the target of the government is to receive a 100% offset. Additionally, offsets for major defense

systems must be distributed among the three regions of Belgium. These divisions are based on population, size of each area, and financial considerations. These percentages may vary with each contract, but are expected to average, as follows:

Flanders	55%
Wallonia	35%
Brussels	10%.

Firms bidding for contracts requiring an offset must present their economic compensation proposal, along with their financial and technical proposals, to JS/SGA. Additional information on offsets may be obtained from the Ministry of Economic Affairs (MEA) as follows:

Ministere des Affaires Economiques
Service Industrie et Defense
Square de Meeus 23
1040 Brussels, Belgium
Tel. 32/2/506.51.11
Fax. 32/2/514.03.89

The Belgian military is accustomed to dealing with the United States' standard operating procedures for import licenses, end user certificates, and offsets. However, the strict regulations and liability that are involved could be detrimental when competing with countries that have less rigorous policies.

Intellectual Property Rights

The rights granted under U.S. patent, trademark or copyright law can be enforced in the United States, its territories, and possessions only. The EU, for its part, has taken a number of initiatives to provide intellectual property protection, but not all measures have been implemented. In cases of non-implementation, national laws still prevail.

Belgium is also a member of the World Intellectual Property Organization (WIPO) and the European Patent Convention (EPC). A single European patent, valid throughout the EU, does not yet exist, since the community patent convention has only been ratified by Germany and Greece. In the meantime, the patent applicant can choose between a national and a multiple-country patent. In the latter case, a single application to the European Patent Office in Munich is required for obtaining patents valid in a number of countries within the EU, and in Austria, Liechtenstein, Sweden, Monaco, and Switzerland. For additional information contact the following agency:

European Patent Office
Erhardstrasse 27, D-80331
Munich, Germany

Tel: 49-89-23990
Fax: 49-89-23992850

Trademarks/Intellectual Property Rights

Pending the establishment of the EU Trademark Office, trademark registration continues to be handled on a national basis. Trademarks in Belgium are regulated by the Uniform Benelux Law of 1962, which offers protection in Belgium, the Netherlands and Luxembourg. An application for trademark can be filed either with the Belgian National Office in the Ministry of Economic Affairs or with the Benelux Trade Mark Bureau located in The Netherlands (Bankastraal 51, The Hague). A search is required to ascertain the existence of a similar or identical trademark for the same category of product. If granted, protection lasts for ten years from the date of application and can be renewed for further periods of ten years each. Trademarks must be used within three years of registration or within any uninterrupted period of five years.

Belgium is a member of the Bern Convention and the Universal Copyright Convention (UCC) of Geneva. As a member of the UCC, to which the U.S. and 50 other countries belong, Belgium accords authors automatic copyright protection throughout all UCC countries when registered with this organization. Protection exists for the life of the author, plus 50 years after death. In addition, Belgium has passed a revised copyright law which brings Belgian practice into conformity with existing EU directives. However, EU directives permit some variation in each member state and U.S. firms wishing to protect their copyrights in Belgium should consult local legal counsel. This is particularly true regarding reciprocity provisions in the new law.

Priority areas for harmonization of national law throughout the European Union have been identified in the European Commission's green paper and follow-up paper. As in the case of copyrights, U.S. firms need to consult local legal counsel applies concerning patents and trademarks.

U.S. Government Points of Contact

Listed below are helpful points of contact for U.S. firms interested in the Belgian or NATO markets.

U.S. Embassy:

Mr. Terence Flannery
Commercial Counselor
U.S. & Foreign Commercial Service
U.S. Embassy Belgium
PCS 82 Box 002

APO AE 09724-1015
Tel. 32/2/513.38.30
Fax. 32/2/512.66.53

Since 1950, the Office of Defense Cooperation (ODC) at the U.S. Embassy has played a vital role in meeting Belgium's defense needs. The Belgian Armed Forces maintain U.S. defense equipment purchased either through the Foreign Military Sales program or commercially. Situated in Brussels, Belgium, the unofficial capital of Europe, ODC is a neighbor to the three key European decision centers: NATO Headquarters, SHAPE Command, and the Commission of the European Union. Brussels also hosts European headquarters for many American defense firms.

COL Richard I. Kearsley, Chief
Office of Defense Cooperation
Belgium-Luxembourg
U.S. Embassy Brussels
PSC 82, Box 002
APO AE 09724-1012
Tel. 32/2/513/38/30 ext. 2652
Fax. 32/2/514/56/66

U.S. Industry Associations in Belgium

American Chamber of Commerce
Jo Ann Broger
General Manager
Ave des Arts 50
Box 5 1040 Brussels, Belgium
Tel. 32/2/513.67.70
Fax. 32/2/513.79.28

American Electronics Association
Kevin Prager
Managing Director
Rue de Drapiers 40

1050 Brussels, Belgium
Tel. 32/2/502.70.15
Fax. 32/2/502.67.34

ADIF is a forum that consists of most, if not all, of the significant U.S. defense contractors who have offices in Brussels. Their function is both business and social, as they act as a mutual assistance and support group. ADIF's presidency is revolving. For further information, contact the current ADIF President:

John Largent
Vice President
Hughes Aircraft Inc.
Ave Ariane 5
1200 Brussels, Belgium
Tel. 32/2/778.49.11
Fax. 32/2/778.49.99

CZECH REPUBLIC

CZECH REPUBLIC

Overview

The Czech Republic is generally considered to be a political and economic success story among the former East Bloc nations. It has a stable currency, extremely low unemployment, low national debt, and large foreign currency reserves. GDP grew by 4.8 percent in 1995, and is estimated to grow in the range of five to six percent in 1996 and 1997. The inflation rate for 1996 is expected to stay around 9 percent. In 1995, the Czech Republic became the first former Warsaw Pact member to join the OECD, and the first to be given an A rating by Standard and Poor's. The nation also offers an excellent central European location and a highly skilled work force. In July 1997, the Czech Republic, along with Poland and Hungary, was formally invited to join NATO.

In spite of the dramatic progress already made in the restructuring of the Czech Republic's economy and industrial base, there are lingering problems with privatization, corporate restructuring, and transparency in the capital markets and procurement process. Privatization of key sectors such as energy and transportation has been delayed primarily due to the need for clearer pricing and regulatory frameworks. While some observers view these delays as setbacks, if the end result is greater transparency and an improved regulatory environment, potential investors will benefit by being able to more fully assess market opportunities.

Aside from its predictable and unpredictable transition pains, the nation's overall macroeconomic, political, and social stability create an attractive investment climate for foreign investment and trade. It is not surprising that many American firms have developed strong business relationships in a wide range of product and service sectors. Between 1990 and the first half of 1996, the U.S. was the second largest foreign investor in the Czech Republic.

As the Czech Republic moves steadily toward integration with Western institutions, including NATO, its defense sector firms are seeking commercial and operational alliances with foreign companies. Since the Czech Republic was founded in 1993, the U.S. has played a lead role in helping the Czech military transition to NATO compatibility. Programs such as the Warsaw Initiative and Foreign Military Sales (FMS) include advisory assistance for restructuring as well as funds for acquisition. The current Czech market offers promising opportunities for American defense and security firms in both the military and civilian sectors.

Defense Industry Environment

The MOD's 1995 budget was US \$1.12 billion. Of the US \$220 million that was targeted toward investment, US \$160 million was for acquisition. In 1996, the military's spending was set

at US \$1.22 billion (2.3 percent of GDP), of which US \$252 million was scheduled for investment. Most spending was exhausted by expenditures on wages, pensions, food and clothing.

The Czech government's policy has been to cap the MOD budget below 2.5 percent of GDP. While the Ministry of Defense is seeking to claim a larger share of the state budget next year, the current government plan calls for a 1997 military budget of US \$1.16 billion which is only 1.7 percent of GDP. Considering projected 1997 inflation, this would be about an 8 percent cut in real spending power. This projected reduction in spending comes at the same time that the military is struggling to bring the armed forces closer to Western military standards. Sources in the Czech Defense Ministry say that investment should account for roughly 30 percent of the budget in the future, although NATO supporters would like to see that figure increase to 50 percent.

Like defense industries throughout the world, the Czech industry is finding that it must diversify and seek dual-use technologies to expand its market potential. The Czechs have a long industrial history of producing high quality aircraft and heavy equipment, as well as sophisticated technologies for radars. However, the current defense trade sector is struggling with its legacy of state control which includes inefficient production methods and unenlightened management. The process of privatization and its accompanying loss of government subsidies have left the defense sector crushed by debt and crippled by outdated technologies. For example, military aircraft producer AeroVodochody is burdened with enormous debt as a result of unfulfilled contracts, high fixed costs of large production capacities, and relatively low rates of production. Although the aviation sector, along with all other industrial sectors, has been restructured and privatized, major holdings of some of the most important companies are still held by the state (through the National Property Fund) and by large Czech banks (through investment funds).

Structure and ownership of major firms within the Czech defense sector is in a state of transition. When evaluating opportunities within the Czech Republic, U.S. firms should obtain updated information from the U.S. Embassy Prague's Commercial Service, Defense Attache Office, and Office of Defense Cooperation.

Domestic Defense Industry

The Czech Republic's massive privatization program includes restructuring and consolidating firms. The descendants of the former state owned defense sector include three primary consortia, or holding companies: Aero Holding, RDP, and Omnipol. Aero Holding now encompasses the aeronautical industries, RDP takes in ground related defense and Omnipol is the trading arm. Below is a brief overview of these three important consortia.

Aero Holding, Inc.

Aero Holding manages seven independent companies within the aviation sector, however 64 percent of Aero is still state-owned through the National Property Fund. With the disintegration of the Eastern Bloc and the Soviet Union, the aircraft firms in Aero Holding lost their traditional markets. Restructuring the industry to survive in an open economy continues to be a huge task. The process of restructuring began in 1993 under the direction of the newly formed Czech government. Major Czech banks, which were and still are the main creditors of Aero Holding, play an important role in the process. The Czech aviation industry, both civil and military, is regulated by the Ministry of Industry and Trade.

The objectives of the restructuring scheme include restructuring the companies producing civil aircraft and components (primarily Let Kunovice and Walter Prague), and maintaining state influence in companies producing military aircraft and training systems (Aero Vodochody) so that the requirements of the Czech Air Force are met. All companies in this sector are plagued by massive debt and need investment for technology and production upgrades. However, the overall restructuring process has moved from the initial survival stage to the current stage of consolidation and reorganization. This should, hopefully, lay the foundation for the next stage of development and international competitiveness. Because of the nation's small size, the Czech aircraft industry is dependent on exports. But to compete internationally, the Czechs will need to invest in technology, equipment, and management expertise. The sources of investment have yet to be identified. Foreign participation is expected, but for a foreign firm to properly access an opportunity, the questions of debt and ownership must be answered. In short, the sector presents great opportunities wrapped in extreme uncertainty.

The two largest aircraft producers are LET Kunovice (civilian) and Aero Vodochody (military). LET Kunovice is the producer of the highly successful L-410 which has been widely used as a commercial and military transport aircraft throughout Central and Eastern Europe and in Third World countries. A follow-on to the L-410 is the L-420 which is in the process of certification approval in the U.S. and the Czech Republic. LET has recently entered a planned debt-settlement process, and is making steady steps toward restructuring. LET is now producing and selling spare parts and is focusing on development and future production of the L-610, a regional commuter aircraft equipped with General Electric CT7-9D engines. Receptive to joint ventures, Let Kunovice recently formed a joint venture with an American firm to provide computer-aided design and engineering expertise.

Decisions concerning ownership of the largest Czech aircraft enterprise, Aero Vodochody, have been delayed until at least late September 1996. Current ownership is in the hands of three major banks (Konsolidacni, Czechoslovenska Obchodi Banka, and Investicni Postovni Banka) and the National Property Fund. The Czech Minister of Industry and Trade, Vladimir Dlouhy, is taking an active role in deciding Aero Vodochody's fate. Dlouhy has stated that he would like to see a foreign investor buy into Aero Vodochody and that the state would then keep only a blocking minority stake of 34 percent. In spite of its current dismal financial

state, Aero Vodochody's future is brightened by its development of the L-159 multi-role combat aircraft which will meet NATO standards. This development project is financed from a credit guaranteed by the Czech Finance Ministry and is not jeopardized by the company's overall debt situation. Two U.S. firms are taking part in the L-159: Rockwell is integrating the avionics and Allied Signal is providing the engines.

RDP Group

RDP Group is a consortium of almost 40 defense firms. It was founded as a joint stock company in June 1993, under the auspices of the Ministry of Defense and the Ministry of Industry and Trade. Its major shareholders include steel producers, military hardware producers and heavy industrial companies.

RDP has a rather controversial reputation. While it presents itself as a the major player in the restructuring of the Czech Armed Forces and their transition to NATO-compatible standards, the consortium's controversial projects (including attempts to sell weaponry to Iran) and personnel conflicts have significantly weakened RDP's credibility.

It is important to remember that all firms within RDP have their own commercial policy and can be approached directly. This direct approach has been the clear preference of the Ministry of Defense. Also, in spite of RDP's public implications to the contrary, not all producers of defense equipment are members of the consortium.

A main project of RDP is modernization of the T-72 Tank. The U.S. firm Allison Transmission is taking part in the modernization program as part of a Nimda (Israel) team with Allison and Perkins (UK) together with Czech Praga and CKD.

Omnipol

Omnipol was once the state owned foreign trading company. In late summer 1996, Omnipol made headline news when the Czech chemical giant Chemapol Group acquired a majority stake in the trading company. The impact of this takeover is not yet clear, but change in ownership and management of the nation's largest domestic arms-trading firm will obviously result in changes within the sector. According to statistics of the Ministry of Industry and Trade, Omnipol and Aero Vodochody have been the largest exporters and importers of military matériel in the past five years. The takeover has also sparked speculation that Omnipol and/or Chemapol will soon seek to gain control of Aero Vodochody.

Omnipol operated in the Czech Republic and the former Czechoslovakia for more than 60 years. While it dealt with a wide range of products, the purchase and sale of arms, munitions and military materiel were its primary activities. Omnipol enjoyed a monopoly in the Czech arms trade from 1968 until 1989 and developed extensive international contacts during this time. In the past, Omnipol was accused of selling weapons to any country that could pay.

Under its previous management, Omnipol acted as an intermediary for interested foreign companies. Operating procedures under its new ownership are still unclear. Below is a summary of Omnipol's primary and traditional trading areas. This information, however, should be viewed within the context of Omnipol's recent takeover by Chempol:

- *Military materiel:* infantry weapons and ammunition (including NATO standard) for army and police use; sport and hunting arms; artillery ammunition; grenades; mobile repair plants for maintenance of aircraft and vehicles; and chemical explosives.
- *Engineering products, aircraft, motor vehicles:* gliders, training, sport and agriculture aircraft; remote controlled firefighting equipment; amphibious recovery vehicles; electric mobile cranes; water turbines; vertical lathe machines; and small hydro-electric power plants.

Trade in Military Matériel

Trading companies in the defense industry are required to have licenses. Responsibility for issuing licenses is shared by the Ministry of Foreign Affairs, the Ministry of Defense, the Ministry of the Interior, and the Ministry of Industry and Trade. Although the Ministry of Foreign Affairs has the strongest authority in these matters, the Ministry of Industry and Trade issues the licenses necessary for the sale. After 1989, other firms (including RDP Group) obtained arms trading licenses.

According to the Ministry of Industry and Trade, arms exports reached US \$153.3 million in 1995. Four firms, Aero Vodochody, Zenit Prague, Omnipol and Ceska Zbrojovka Uhersky Brod, were responsible for 94 percent of arms exports. Almost three fourths of the total was aviation hardware (primarily MIG-29s for Poland, and Aero Vodochody's L-59 and L-39 aircraft for North Africa). In September 1996, ninety-seven firms, including engineering conglomerate Skoda Plzen, had a military arms trading license. Contacts in the Ministry of Industry and Trade include:

Ministry of Industry and Trade
Na Frantisku 32
110 15 Prague 1

- License Office, Dept. Of Special Material
Tel: (42-2) 2406 2720
Fax: (42-2) 2421 811
Ing. Bretislav Gregr
- Information Section
Ing. Miloslav Marcan, Director
Tel: (+42-2) 2485 3424

Fax: (+42-2) 2485 2260

- Aviation
Jaroslav Borak, Director
Tel: (42-2) 231-9735
Fax: (42-2) 231-5351

Defense Opportunities

The Czech Army is being transformed from a Warsaw Pact model to a corps/brigade-based, rapid deployment force along NATO-compatible lines. The limited Czech military budget has forced the MOD to balance everyday operating expenses against the enormous need for restructuring, and rearmament is expected to be a long-term undertaking, with big-ticket acquisitions not beginning for the next several years, depending on the priority of the project. Top modernization priorities for MOD acquisition in the next five years are Command, Control, Communication, Computer and Intelligence (C4I) systems integration and upgrade of air defenses, and include:

- Computers and software
- Office equipment
- Radio and telephone systems
- Cryptologic equipment
- Long and medium range radars
- Air traffic control systems
- Global position system equipment
- Identify friend/foe systems (IFF)
- Instrument landing systems
- Night vision equipment

Major fighter aircraft producers, including Lockheed Martin and McDonnell Douglas, have actively courted Czech decision makers. The U.S. government has offered to lease American aircraft on extremely generous terms. Concurrently, European manufacturers and their home governments have also been active in marketing advanced aircraft to the Czech Republic as well as to Hungary and Poland.

Defense Procurement Process

There was no western-style public procurement prior to the 1989 changes in the Czech government, so the process of letting out tenders is relatively new. Procurement laws were written in 1993 and amended in 1996 in response to recurrent complaints which centered around lack of transparency. While there have been problems with tenders throughout Czech government agencies, the MOD experience has been especially controversial, but only in high

cost acquisitions. Since 1993, the MOD has let out 523 public tenders. Thirty-five violations were found in 13 tenders. The newly appointed Minister of Defense, Miloslav Vyborny, has a legal background and a stellar reputation. He is highly regarded across party lines and is expected to keep tight control over the procedures for future MOD tenders.

After President Clinton unveiled the "Partnership for Peace" program, the number of U.S. defense and electronics firms visiting the region increased dramatically. The Czech Government plan to upgrade its defense capabilities to become compatible with NATO forces presents significant export opportunities for U.S. firms. Procurement in the defense sector, however, has been marred by some of the following difficulties:

- *Lack of familiarity with local contacts and business practices.*

Many U.S. firms have established local contacts and are satisfied with their ability to compete, but many other firms have found the process difficult. The first major difficulty is language. While many Czech commercial firms have English-speaking staff members, the same is not true at the Ministry of Defense (MOD) and in the Armed Forces. The second difficulty is the lack of presence in the Czech Republic. Many U.S. firms have local offices registered in the Czech Republic, others have affiliation arrangements with Czech firms, but a large number of firms interested in doing business in the Czech defense sector have only limited local presence. This shortcoming is very important because of the recent opening of the defense sector to Western commercial relations and because of the rapid and unpredictable development of the acquisition process at the official level. In addition, the dramatic organizational transformations in the defense sector at the official and commercial levels have left many U.S. firms with outdated contacts and an obsolete understanding of current acquisition activities.

- *Lack of sufficient personnel and experience among MOD and Armed Forces staff.*

The Czech defense sector has been open to widespread commercial relations with Western firms only since 1990. There has been a huge turnover in civilian and military staff. Most of the senior civilian and military officials have only been in place since that time and most of them have very little prior experience with Western commercial practices.

- *Lack of a stable planning and programming system for Defense procurement.*

Major efforts to transform the old defense procurement system only began in 1990 following the "Velvet Revolution." Out of necessity, the Czech Defense Ministry has taken an incremental approach to the transformation. Major reorganizations and personnel turnover, combined with lack of experience, have made it difficult to implement a Western-style system all at once. The need to continue with a few critical acquisition projects, even under the current austerity, prevents the Ministry from halting the process and starting over. The Ministry of Defense is determined to implement a stable, long-range system analogous to the U.S. Planning, Programming, Budgeting System (PPBS), which will enable the Czechs to predict and plan

ahead for their acquisition projects. It will also allow them to respond to sudden changes in circumstances. Until this system is in place, the acquisition process will tend to lurch from project to project with shifting priorities and criteria; past experience will not be a good predictor for future practice.

- *Lack of transparency and accountability in the defense acquisition process.*

One of the results of this lack of transparency is the tendency to bury responsibility for evaluation and selection of bids. This takes two forms: failure to set and stick with objective criteria for the evaluation process; and referral of decisions to ad hoc committees that are not publicly accountable for their recommendations. Experience with several recent acquisition projects has raised questions along both of these lines. First, acquisition tenders have been made on the basis of required military capability, but during the evaluation and selection process, the relative weights of capability-based versus economically or politically-based criteria have tended to shift unpredictably. Second, ad hoc commissions have been used at the evaluation and decision stage of the acquisition, but there has been little understanding in advance about the composition and responsibility of the commission or even about whether part of the process would be referred to a commission at all. The exact responsibilities and qualifications of these commissions have been unclear and there has been little direct information--either in advance or after the fact--about the criteria they used and the information they considered in the selection process. This has left an air of mystery that has led to accusations of unfairness, bias, and improper influence, and has not contributed to confidence in the accuracy of the evaluation process or the integrity of the specific findings used in making key decisions.

However, there are some general selection criteria followed by the MPD throughout the procurement process:

- Domestic content will weigh heavily in purchasing decisions. Ideally, the MOD would like to see foreign suppliers transfer technology and manufacturing capability to local joint-ventures.
- Lack of domestic content may be balanced by offsets or other compensation to Czech industry. In the past, firms have contractually agreed to purchase Czech products and services so that the total value of these purchases would be equal to that of the Ministry's purchase.
- The MOD has demonstrated that it will give preference to modern, NATO-compatible equipment from stable suppliers.

Czech MOD contacts are as follows:

Director of Office for Defense Procurement
Namesti svobody 471

160 01 Prague 6
Czech Republic
Tel: (42-2) 2021-4701
Fax: (42-2) 312-0052
Vit Sevic

Czech Army Foreign Relations Office
11 Delostrelecka
160 00 Prague 6
Czech Republic
Tel: (42-2) 2021-1989
Jaroslav Stojan

Diversification and Commercial Opportunities

In the first half of 1996, foreign direct investment (FDI) in the Czech republic amounted to US \$458 million. The U.S. was the largest investor with 26.2 percent of FDI for the half year. This was primarily due to Conoco's part in the International Oil Consortium (IOC includes three foreign investors: Conoco, Shell and Agip) and the IOC's entry into refining operations.

Cumulative FDI since 1990 has been approximately US \$6 billion. The U.S. ranks as the second largest investor, with 14.5 percent. Germany is first with 29.6 percent, Switzerland is third with 13.7 percent, and the Netherlands is fourth with 13.5 percent.

The most common forms of direct investment are as follows:

- Establishing a joint-venture company with a local firm: This has been the primary form of foreign investment.
- Participation in privatization process: Although the second wave of privatization is finished, many approved projects have been designed to accommodate future foreign investors (e.g. electricity, gas and water distribution companies, municipality heating plants).
- Direct purchase: Though the second wave of privatization has been completed, the National Property Fund still owns stock worth US \$8 billion, of which US \$6.2 billion is in strategic sectors including telecommunications, energy and banking. In the second half of 1996, the privatization process began to stall and political skirmishes are expected to further delay privatization decisions.

In addition to privatization and investment strategies, there are many commercial opportunities in dual use or related technology fields. The following are industry sectors that offer good potential markets for U.S. firms.

Telecommunications

In 1995, 27 percent of the state telecommunications company SPT Telecom, was acquired by Tel-Source, a consortium of Dutch and Swiss firms. As a result of this US \$1.32 billion deal, FDI in communications accounted for 52.8 percent in 1996, far outpacing investment in any other sector.

Despite this telecom acquisition, diverse opportunities for U.S. firms in standard and wireless telecommunications abound, as well as in information services. In the wake of the SPT deal, all equipment for standard wired telecommunications must be supplied, including SDH (synchronized digital hierarchy) technology. In wireless telecommunications, mobile phone and paging systems offer the most intriguing possibilities for American firms. Other information service opportunities worth looking into are call forwarding and voice mail services, Internet services, and voice/data/video conferencing.

Environment

The market for environmental technology and services is booming, as the Republic struggles to contain and reverse widespread environmental damage caused by years of neglect. The Czech government has given priority to reducing air, water and solid waste pollution. Air pollution is a severe problem in Prague and in the industrial regions of northern Bohemia and northeast Moravia. Soil contamination is also a problem in these regions, as well as at old Soviet army bases and surrounding areas. Local production in the environmental sector is comprised mainly of less advanced equipment and materials. The need to meet EU environmental standards during the next few years will create great demand for high technology equipment. The most promising environmental subsectors are air pollution control equipment, water pollution control equipment, and recycling technologies.

Security and Safety Equipment

With the rapid development of private businesses and the banking sector, coupled with an increasing crime rate, the market for safety and security equipment is growing. However, 85 percent of electronic security equipment is currently imported. The most promising subsectors are electro-optical surveillance, video and optical systems, explosive and contraband detection, access control, parking systems, shotguns, alarm systems for homes and businesses, safes for businesses, and auto alarm and immobilization equipment. Competition is fierce within this market. All systems have to be tested and approved by the central office of the police as well as the Czech office for Standards, Meteorology, and Testing.

Selling to the Government

The Czech government is required by law to hold tenders for major procurement. American firms have been major suppliers of radio and telecommunication equipment, computers, software, and other services. In July 1996, revisions to the Czech Republic's Procurement Law went into effect. Changes should help to clarify and simplify procedures for public tenders. A new emphasis on total value rather than simple cost should help U.S. firms compete. Competing in the bidding process used to be problematic for American firms, as their services and products are often priced higher than those of domestic and European competitors. However, American firms have a reputation for providing high quality, low maintenance products, and top management expertise. Because these factors are now considered along with cost, disadvantages for U.S. firms are minimized, although a lack of transparency throughout the procurement process may still provide a formidable obstacle for some firms.

Tenders are publicized in the local daily press (e.g., *Hospodarske noviny* and *Mlada Fronta Dnes*), as well as in the *Obchodni vestnik* (Trade Gazette), which is published by the Czech government. Major manufacturers of a particular product are usually notified directly.

Under the current Procurement Law, a public tender must be carried out any time procurement is ordered by a state/municipal organization or when the source of financing is the state budget, state funds, municipal budget or a grant or loan from an international organization. A procedural change that may be of interest to U.S. firms is that the period of time between calling and closing tenders has been extended to 180 days when procurement is financed by international funds. An unchanged portion of the law specifies that Czech firms will enjoy a 10 percent preference when competing in the bidding process. Joint ventures between foreign and Czech firms are considered "foreign" for procurement purposes. However, the Minister of Economic Competition has stated publicly that this law will be amended within the next few years due to objections by the European Union.

All products offered to a tender must be approved for the Czech market. Certificates of confirmation that a product meets Czech standards are issued by the Office for Standards and Meteorology according to results of testing in an appropriate testing institute, such as the Electrotechnical Testing Institute, Research Institute for Motor Vehicles, or the Czech Telecommunications Office.

The Ministry of the Interior

In addition to the Ministry of Defense, many trade opportunities exist within the Ministry of the Interior. This ministry administers Czech police, border patrols, its own corps, and other law enforcement entities. The Ministry of the Interior increasingly uses tenders for procurement. Of the four sections with procurement responsibilities, one is the office of the Czech Government Flying Service and the other three are under the control of the police presidium.

Technical proposals should be directed to the appropriate section of the Ministry. Companies are also encouraged to organize presentations of their products. Most resources are allocated through the "service section" (Tylova Sekce), which is responsible for procurement of items such as uniforms, weapons, and vehicles.

Contacts in the Ministry of the Interior include:

Service Section
Ripotocni 300
101 45 Prague 10
Tel: (+42-2) 746 447
Fax: (+42-2) 734 956
Mr. Z. Vodslon

Police Aviation Dept.
Post. Urad 614, P.O. Box 35
161 00 Prague 6
Tel: (+42-2) 328 343
Fax: (+42-2) 320 151
Judr. V. Panenka

Information & Computer Systems
P.O. Box 62
170 89 Prague 7
Tel: (+42-2) 683 6637
Fax: (+42-2) 691 9442

Rndr. J. Teska

Telecommunications and Encryption
P.O. Box 21/sk
170 34 Prague 7
Tel: (+42-2) 6631 0054
Fax: (+42-2) 373 014
Ing. J. Mraz

Health and Social Security
P.O. Box 21/zs
170 34 Prague 7
Tel: (+42-2) 2421 9922
Fax: (+42-2) 2421 7065
Mudr. T. Strnadel

Czech Government Flying Service
Post. Urad 614, P.O. Box 35
161 00 Prague 6
Tel: (+42-2) 341 262
Fax: (+42-2) 311 5329
Judr. Z. Friedrich

Ministry of Transport

The Czech Ministry of Transport regulates civil air transportation within the Czech Republic. It also regulates the development of the Czech civil airport infrastructure. Some companies previously managed by the Czech Ministry of Transport have been transformed into state-owned enterprises that operate as independent entities. Some of the companies have been privatized and have the status of joint stock companies. However, majority ownership is still maintained by the state through the National Property Fund.

At present, there are 68 civil airports in the Czech Republic. Eleven of these have international status. Only four international airports are still under the supervision of the Czech Airports Administration (CAA), but these four, Prague, Brno, Karlovy Vary, and Ostrava constitute the major upcoming projects in airport infrastructure. Other airports have been privatized and are owned primarily by local municipalities. Plans for development of these airports are still being discussed. Liberec, a city in the North Central part of the country is currently completing plans for construction of an airport.

Privatization and upgrading of international and regional airports will create demands for products and technologies for airport infrastructure including information technologies, and security systems.

Contacts in the Ministry of Transport include:

Ministry of Transport
Nabr L. Sovobody 12
110 115 Praha 1
Tel: (42-2) 2303 1357
Fax: (42-2) 2481 0596
Oldrich Gorgol, Director for Aviation

Czech Airport Administration
Letiste Ruzyne
160 00 Praha 6
Tel: (42-2) 325 169
Fax: (42-2) 360 922
Milos Stastny, General Manager

Air Navigation Services
Smetanovo nabr. 334/4
11800 Praha 1
Tel: (42-2) 2422 9459
Fax: (4202) 3166 0078
Petr Materna, General Director

Airport Liberec
Snehurcina 708
460 15 Liberec 15
Jindrich Kostinec, General Manager

Doing Business in the Czech Republic

Business Customs

Standard European business customs apply in the Czech Republic. Czechs dress much the same as U.S. business people, in standard business attire. The business custom is to be punctual for appointments. Many Americans feel that Czech business people are not warm and friendly. Initial business meetings are often not overly cordial, but serious and matter-of-fact. Business partners do not usually call each other by their first names. Unless the Czech business person has had experience dealing with Americans, he or she may appear to be unfriendly and overly reserved. It takes several meetings to establish a sense of rapport and a more relaxed attitude. As is the case in much of Europe, it may be more difficult to make business appointments and contacts in the Czech Republic during the month of August and close to major holidays, such as Christmas.

Business Structure

The Czech Commercial Code establishes various types of business structures and organizations, i.e., Joint stock company (a.s.), Limited liability company (s.r.o.), Branch of a foreign company, Limited partnership (k.s.), Unlimited liability company or General partnership (v.o.s.), and Cooperative (druzstvo). Individuals may also do business as entrepreneurs. This structure is modeled largely on German and Austrian commercial codes.

U.S. Government Point of Contact

Listed below are useful points of contact for U.S. firms interested in the Czech market.

U.S. Embassy

U.S. & Foreign Commercial Service
American Embassy Prague
Hybernska 7a
117 16 Prague 1
Kathleen Kriger, Commercial Attache
Tel: (42-2) 2421 9844
Fax: (42-2) 2421 9965

Defense Attache Office
American Embassy Prague
Trziste 15
David Potts, Defense Attache
Tel: (42-2) 2451-0847
Fax: (42-2) 532-988

Office of Defense Cooperation
Trziste 15
118 01 Prague 1
Jeffrey M. Cukr, Chief
Tel: (42-2) 2451 0847
Fax: (42-2) 2451 0209

American Chamber of Commerce
Karlovo namesti 24
110 00 Prague 1
Tim Whipple, President
Tel: (42-2) 299 887
Fax: (42-2) 291 481

DENMARK

DENMARK

Overview

Denmark's Social Democrat-led minority government tightened fiscal policy in 1996 in order to reduce public budget deficits and to avoid labor market bottlenecks. At the same time, the economy is reacting to nominal growth in Germany, Denmark's major export market, and economic growth has come to a halt. The Government expects the economy to start to pick-up again in the second half of 1996. Projections for 1996 point towards a GDP growth of only one percent, increasing to between two and three percent in 1997, assisted by a resurgence in exports and a continued increase in private consumption. Denmark has had very low inflation rates in recent years, averaging less than two percent, which have ensured wage earners real income gains of between one and two percent annually. Inflation is expected to remain low at between 2.0 and 2.5 percent in both 1996 and 1997.

Trade between the U.S. and Denmark was almost balanced in 1992 but in the last two years it has tipped to a deficit in favor of Denmark of about US \$500 million a year. The U.S. has about 6% of the Danish import market, behind Germany, Sweden, and the United Kingdom. The U.S. is seventh among Denmark's suppliers and first among non-European sources.

Defense Industry Environment

The 1996 Danish defense budget totals U.S. \$3 billion. This amounts to about 1.7 percent of the Danish GNP. Approximately 32 percent of the defense budget is spent on procurement, including maintenance.

The Danish defense industry consists of some 30 to 35 companies, supplying a variety of products and services, from multi-purpose navy ships (e.g., the "Multiflex" by Danyard) and fighter plane parts (e.g., Per Udsen Aircraft Industry), to advanced electronics (e.g., Terma Elektronik). A listing of Danish defense product suppliers can be found in the publication "Danish Aerospace and Defense Industry Capabilities Manual." The publication gives a full background of each company and is available from the following agency:

Ms. Ena Bjerregaard
The Confederation of Danish Industries
H.C. Andersens Boulevard 18
DK 1787 Copenhagen K
Tel: 011-45-3-377-3377
Fax: 011-45-3-377-3300

MOD Defense Plan

Current internal dialogue centers around the traditional mission of defense of the nation from external attack, i.e., the threat from a Soviet move through Eastern Europe and the classical NATO response. The new mission areas as identified in a December 1993 Parliament Act are conflict prevention, peacekeeping, peacemaking, and humanitarian missions in the U.S. or CSCE context; and conflict prevention, crisis management, and defense in the NATO context.

While Denmark has traditionally maintained a low-profile military stance, the basic Danish interests in peacemaking have thrust them into the forefront of current limited-military actions. This will continue to shape the structure of the Danish military. New commercial opportunities will center around support of such missions.

Defense Opportunities

The following is a list of upgrades and potential new systems purchases to be made by the Danish MOD.

- *Main Battle Tanks* - Requirement for 51 used tanks to equip the Danish International Brigade. The Leopard 2 tank is the heavily favored candidate of the Army which is familiar with the Leopard series, but other options will also be reviewed for potential purchase in 1997.
- *F-16 Airborne Laser Designator System* - The Air Force will equip two F-16 squadrons which have completed the Mid-Life Upgrade program. Current systems under consideration are the Lockheed-Martin Pathfinder/LANTIRN Targeting Pod combination, and the Israeli Litening pod. Price will be a major factor in the selection.
- *Air Defense System Upgrades* - The Air Force has initiated an upgrade of their HAWK air defense system. This will include new 3-D radar, command links, and control stations. Integrating contractor is Terma Elektronik AS, a major Danish defense company. Supplier relationships for required subsystems are a possibility.
- *Tactical Vehicle Purchases* - The Army will replace a fleet of nearly 500 light tactical multi-purpose vehicles over the next 5 year period.
- *Artillery Locating Radar* - The Army is reviewing the capabilities of the Hughes TPQ-36, version 8. A total of 8 systems will be purchased in 1997.
- *Unmanned Aerial Vehicles (UAV)* - The Army is in the process of reviewing available unmanned reconnaissance systems for purchase within approximately three years.

- *M-113A upgrades* - Planned modification of current M-113 vehicles in 1999. First phase will be to modify up to 150 vehicles for the Danish International Brigade.
- *Communications Equipment for Danish Special Forces* - Continuing upgrade of UHF/VHF/SATCOM man-portable communications equipment over the next several years.
- *Data Link Terminal Sets* - with software and test equipment for Datalink-11 system to be used for ship/shore installations.
- *Naval Patrol Craft* - The Navy has expressed a specific interest in the U.S. Coast Guard 47 foot craft.
- *AIM-9 Infrared Guided Missile* - Requirement for replacement by the year 2000 and beyond. This procurement is not in the current defense plan, but will be incorporated in budgets over the next several years.

Defense Procurement Process

Denmark is a full member of NATO, and for NATO infrastructure projects it follows NATO regulations regarding public bidding. Information on these procedures is available from NATO headquarters.

Detailed information on the Danish military procurement process and procedures is available from the publication "Danish Aerospace and Defense Industry Capabilities Manual," Section II, pages 81-89.

Restrictions on foreign competition

There are no known restrictions on foreign competition, with the notable exception of shipbuilding and some instances of low-complexity or low-value contracts when Danish suppliers can meet the requirement. Danish procurements are normally open to international bidding. However, for defense items, it is the Danish Government's policy to impose offset requirements for military contracts with foreign suppliers valued at over US \$4.2 million.

A conditional agreement must be signed by each potential supplier and the Ministry of Industry before the final choice of supplier can be made.

For further information regarding offset requirements, contact:

Mr. Lars-Bjorn Larsen
Chief of Section
The Danish Agency for Development of Trade and Industry

Tagensvej 137
DK 2200 Copenhagen N
Tel: 011-45-35868686
Fax: 011-45-35868687

Requirements for Import Licenses, End-User Certificates, Security Clearances

As a member of NATO, Denmark applies NATO regulations for export control purposes. An import license, administered by the Danish Department of Justice, is required for civilians to import arms and ammunition. Otherwise, Denmark generally requires no import licenses or end-user certificates.

For classified projects, all bidders must have an appropriate NATO security clearance. In the U.S., such clearance is obtained from the U.S. Department of Defense.

Selling to the Danish MOD

The Ministry of Defense has delegated most staff and management functions to the headquarters Chief of Defense Denmark (CHOD DEN), DK 2920 Vedbaek, Denmark.

A small, new-to-market U.S. company interested in selling to the Danish military may initially wish to contact one of the three military matériel commands. The military command may then advise whether the company's products are subject to public bidding, or whether the military is in the market for such products. The names and mailing addresses are:

Army Materiel Command
Arsenalvej
DK 8900 Hjørring

Air Force Matériel Command
P.O. Box 150
DK 3500 Værløse

Navy Matériel Command
Holmen
DK 1433 Copenhagen K

In the United States, the primary points of contact are the Danish Commercial Counselor/MOU Attache or the Defense Attache at the Danish Embassy:

Defense Attache
Royal Danish Embassy
3200 Whitehaven Street, N.W.

Washington, DC 20008
Tel: (202) 797-5345

Counselor (Commercial Affairs)
Royal Danish Embassy
3200 Whitehaven Street, N.W.
Washington, DC 20008
Tel: (202) 797-5345
Fax: (202) 328-1470

Individual matériel commands have their own internal administrative regulations, which may be obtained either directly from the appropriate agency or from the Confederation of Danish Industries;

Defense Quartermaster Matériel Administration (Combined Service)
P. O. Box 808
DK 2950 Vedbaek, Denmark
Tel: 011-45-42-89 05 01

The Defense Construction Service (DCS)
Frederiksholms Kanal 30
1220 Copenhagen K, Denmark
Tel: 011-45-33-13 47 01

Danish Defense Research Establishment
Ved Idraetsparken 4
P.O. Box 2715
DK- 2100 Copenhagen O, Denmark
Tel: 011-45-31-42 57 07, Ext. 240

No prequalification is required in order to participate in Danish defense procurements, except for selected projects requiring a high degree of technical skill and quality assurance. In those cases, prequalification may be obtained by applying to any of the three military matériel commands.

The Danish Defense Command publishes a quarterly document titled Danish Defence Procurement Bulletin. This bulletin does not include all defense procurements, but it provides information on most new system requirements. More importantly, it provides the points of contact for the individual military commands which are executing authorities for Danish defense procurements. Requests for a subscription to this bulletin should be mailed to:

KMDSK VED
P.O. Box 606

DK-2950 Vedbaek, Denmark

The subscription price is DKK 400 (US \$60.00). Payment is requested by check payable to KMDSK VED and drawn on a Danish bank.

Normally, the necessary specifications will be included in the solicitation package. However, in the rare cases when they are not included, a reference to standing specifications, (e.g., U.S. military specifications) will be made. Denmark does not have a national specifications repository.

Denmark uses both sealed-bid and negotiated procurement. Offerors should be prepared to have their original offer accepted without any discussions. Three principles are basic to Danish defense procurements:

- Military procurement practices are similar to normal commercial practices.
- Military procurement agencies must fully consider Danish-produced items.
- Military procurement agencies must accept the bid with the lowest total cost that, in addition to adhering to all bid conditions, fulfills any applicable offset requirements for industrial compensation.

The materiel commands have the right to reject quotations without explanation and choose the firm they believe will do the best job, regardless of bid ranking. Prospective contractors are not present at bid openings; however, the results are normally announced to all participants in writing or by telephone.

Types of Contracts

Although both fixed-price and cost-plus contracts are employed, the MOD uses mostly fixed-price contracts. In cases where fixed-price contracts with economic price adjustment are used, U.S. contractors need only be familiar with U.S. price indices (except where an international index might normally apply).

Generally, normal business terms and conditions apply to defense purchases. Since public funds are involved, however, conformance is monitored by the government auditing office. Contract terms and conditions may vary, depending on the value of the contract, issuing agency, sophistication, etc. Delivery terms are usually governed by INCOTERMS 1980. Payment policy calls for cash payment on delivery of contracted goods and services; however, exceptions to the normal practice are relatively common and bank guarantees are often required. Payment is normally made in the currency specified in the contract, 30 days net upon receipt of invoice and delivery of the equipment or service. Normally, a certificate of conformity signed by the supplier and quality control representative is required.

In accordance with NATO Standardized Agreement 4107 (STANAG 4107), the MOD may request U.S. Government quality control representatives to provide QA services on their behalf.

Diversification/Commercial Opportunities

Danish defense companies are privately owned. Thus, there are no "privatization" opportunities. While defense contracts may play an important role for some firms, most Danish companies producing defense products are generally not focused solely on production for the defense sector.

U.S. high-tech products have a relatively good share of the Danish market. However, given the slow paced growth of the Danish economy, new-to-market products generally can only enter by taking market share from already established products. Thus new-to-market U.S. companies are often competing with already established U.S. companies.

There is no direct government procurement of commercial aircraft. The Danish government holds the majority of stock in the holding company owning two sevenths of the airline of Denmark, Sweden, and Norway - Scandinavian Airlines (SAS). Procurement decisions are made by SAS headquarters in Stockholm, Sweden.

Key Ministries/agencies for selected product areas are listed below.

Commercial Aircraft

Det Danske Luftfartsselskab A/S (DDL)
H.C. Andersens Boulevard 18
DK 1501 Copenhagen V
Tel: 011-45-3-314-1333
Fax: 011-45-3-314-2828

Air Traffic Control

Civil Aviation Directorate
Mr. Val Eggers, Administrator
Ellebjergvej 50
DK 2450 Copenhagen SV
Tel: 011-45-3-644-4848
Fax: 011-45-3-644-0303

Medical/Diagnostic

Rigshospitalets Indkobskontor
(Government Hospital) Mr. Julius Vogel, Chief of Proc.
Blegdamsvej 9
DK 2100 Copenhagen O
Tel: 011-45-3-545-5979
Fax: 011-45-3-545-5991
Law Enforcement

Ministry of Justice
Office of Police
Slotsholmsgade 10
DK 1216 Copenhagen K
Tel: 011-45-3-392-3340
Fax: 011-45-3-393-3510

Environment

The Environmental Agency
Mr. Lars Goldschmidt, Chief of Section
Strandgade 29
DK 1401 Copenhagen K
Tel: 011-45-3-266-0100
Fax: 011-45-3-266-0479

Demilitarization Techniques

Ministry of Defense
LTC E.T. Pedersen
4th Office
Holmens Kanal 42
DK 1060 Copenhagen K
Tel: 011-45-3-392-3320
Fax: 011-45-3-332-0655

Doing Business in Denmark

Although Denmark's traditional trading partners are primarily its neighbors, Germany and Sweden, there is a long history of trade with the United States. The factors deciding where importers place their orders are almost entirely commercial, although cultural/historical or social ties with a long-standing trade partner may, understandably, play a role. General competitive factors such as price, quality, promptness of delivery, and availability of service are those which determine the success of a supplier in Denmark. Add to this patience and commitment. Danes

don't change suppliers easily and many commercial relationships have been built up and maintained over decades.

Distribution and Sales Channels

As in most other developed countries, methods of distribution in Denmark vary with the type of product. Capital goods, commodities, and industrial raw materials are most often handled by non-stocking sales agents. Specialized and high-technology products are usually handled by stocking distributors which have their own service and maintenance facilities. Consumer goods are usually sold through importing agents and distributors, but increasingly, these items are also imported directly by major retailers such as department and chain stores.

Local Agents/Partners

The modern world of advanced cross-border communications has eliminated numerous barriers, but many Danish companies still prefer to deal with an established local import agent or distributor, rather than buying directly from abroad. The Danish agent/distributor community has developed over centuries and is today a very selective and competitive group of businesses. Many sectors are dominated by a few powerful and quite conservative companies, which have spent decades establishing lasting relationships with their clientele. In contrast to such traditional distribution channels, there is now some movement, albeit slow, toward direct purchasing especially from European suppliers. This is making inroads in the historical role of the sole agent for Denmark. At the same time, there is an increasing trend for foreign companies to establish branch offices in Denmark. In those instances where a U.S. company does not wish to establish its own sales office in Denmark, it is advisable to seek a local agent or distributor. The U.S. Department of Commerce agent/distributor search service (ADS) is an excellent vehicle for finding such a representative.

Joint Ventures/Licensing

Licensing and joint venture arrangements are common in Denmark. Danish firms are fully familiar with both licensing foreign products for manufacture and sale in Denmark and licensing their own products for sale abroad. Licensing agreements do not have to be registered with Danish authorities, and there are no Danish government restrictions on remittance of royalties or fees. Joint ventures may be established as corporations, general partnerships, or any other legal format. Danish law does not discriminate against joint ventures with foreign participation. The government of Denmark, through the Ministry of Industry, actively encourages foreign companies to manufacture high-technology products in Denmark.

Establishing an Office

Setting up a branch office in Denmark requires a relatively simple registration procedure with the Danish Trade and Companies Agency. The filing requirement is for general information

on the U.S. parent company and the activities of its Danish branch. This includes place of business, accounting periods, organizational documents (i.e., Articles of Corporation), and a power of attorney granted to the branch manager. For tax purposes, branches of foreign companies are treated as incorporated companies. As in many other countries, numerous rules and regulations apply to establishing a Danish Corporation. Danish business legislation does not discriminate against foreign subsidiaries or foreign owned companies. Foreign companies need only meet the requirements applicable to national companies. As in the U.S., it is advisable to secure the services of an attorney and a CPA when establishing a business. There are currently approximately 250 subsidiaries of American companies in Denmark.

Sales Service/Customer Support

Danish importers demand, and get from European competitors, a high degree of sales and after-sales service and customer support. The extent of the service and support requirement is directly proportional to the technical complexity of the product. Sound commercial judgement dictates after-sales service at least equal to that supplied by European competitors. Immediate response to a customer's questions, including the use of telefax or electronic mail for routine communications and a readiness to employ overnight courier service when necessary.

Government Procurement (Non-Military)

Government procurement practices in Denmark are generally transparent. Denmark is a signatory to the GATT Government Procurement Code. U.S. firms are eligible to bid on an equal basis with Danish and other bidders for contracts valued over US \$200,000. Invitations to bid are published in the "Supplement to the Official Journal of the European Communities." The text of the invitation to bid is in English, but the tender documents are normally in Danish. In the United States, the Journal is available from the following organization:

Unipub
4611 F Assembly Drive
Lanham, Md. 20706-4391
Tel: 1-800-274-488-8222

Suppliers are qualified on a contract by contract basis; there is no short-list. Although a local agent is not required, it is often advisable to employ one in order to establish service capability equivalent to that available from resident firms. U.S. companies are also eligible to bid for major public works engineering and construction projects, such as ocean bridges and tunnels. The central contact point for information on such projects is the U.S. Department of Commerce, ITA/TD/OEEI, Washington, DC, Telephone 202-482-5225, or any of the Department's District Offices throughout the United States.

Intellectual Property Rights (IPR)

Denmark offers adequate protection for IPR. The Denmark desk of the U.S. Department of Commerce has a list available, containing information about the international conventions and treaties concerning intellectual property to which Denmark adheres.

Duties, Taxes, and other Barriers

Denmark is a full member of the European Union (EU) and EU tariffs are applicable on all products entering from non EU countries including the United States. The rates of duty on industrial goods typically run from five to 14 percent. Once goods have entered an EU country and duty has been paid at the point of entry, it may move freely within the EU. Denmark also applies a value added tax (VAT) of 25 percent on all goods, whether imported or locally produced. Denmark is dependent on foreign trade and therefore traditionally an advocate of free trade policy. Consequently, for non-military contracts, nationally imposed non-tariff trade barriers are practically non-existent.

U.S. Government Points of Contact

The following is a list of helpful points of contact for U.S. firms interested in the Danish market.

U.S. Embassy

Christian Reed
Senior Commercial Officer
American Embassy
DAG Hammarskjolds Alle 24
DK 2100 Copenhagen
Tel: 011-45-3-142-3144
Fax: 011-45-3-142-0175

Per Birger Seehusen
Senior Commercial Specialist
American Embassy
DAG Hammarskjolds Alle 24
DK 2100 Copenhagen

Tel: 011-45-3-142-3144
Fax: 011-45-3-142-0175

Col. (USAF) Lawrence Hagenauer, Chief

Office of Defense Cooperation
Henriksholms Alle
Building #1
DK 2920 Vedbaek
Tel: 011-45-4-566-2100
Fax: 011-45-4-566-3510

U.S. Department of Commerce

Alexis Kemper
International Trade Administration
Office of Trade Development, NATO
Room 1009
U.S. Department of Commerce
Washington, DC 20230
Tel: 202-482-4466

Jim Devlin
Denmark Desk Officer
International Trade Administration

Office of International Economic Policy
Room 3409
U.S. Department of Commerce
Washington, DC 20230
Tel: 202-482-4414

Trade Organizations in Denmark

The Danish Chamber of Commerce
Mr. Lars Krobaek
Managing Director
Borsen
DK 1217 Copenhagen K
Tel: 011-45-3-395-0500
Fax: 011-45-3-332-5216

The Confederation of Danish Industries
Ms. Ena Bjerregaard, Chief of Section
H.C. Andersens Boulevard 18
DK 1787 Copenhagen K
Tel: 011-45-3-377-3377
Fax: 011-45-3-377-3300

The Danish Electronics Industry Association
Mr. Christian Buhl, Managing Director
Norre Voldgade 48
DK 1358 Copenhagen K
Tel: 011-45-3-336-4060
Fax: 011-45-3-336-4070

The Danish Agency for Development of
Trade and Industry
Mr. Lars-Bjorn Larsen
Chief of Section
Tagensvej 137
DK 2200 Copenhagen N
Tel: 011-45-35868686
Fax: 011-45-35868687

FINLAND

FINLAND

Overview

In 1994, GDP grew four percent, the first positive growth since 1989, reaching FIM 511 billion (\$98 billion). In 1995, the Finnish GDP grew 4.2% to FIM 550 billion (\$126 billion). GDP growth for 1996 is projected to be 3%. The move towards a better balance in the economy was reflected in a recovery in the domestic sector. In 1995, industrial output grew by 9 percent. This trend is expected to continue, provided world market factors remain unaltered, as much depends on exports. In 1996 and 1997, output is expected to exceed the level of the 1980s boom years.

Defense Industry Environment

The FY 96 Finnish defense budget of US \$1.8 billion includes a defense procurement account of approximately US \$700 million. This is a slight increase over FY 95 levels. Even so, defense officials have called for an increase. The defense budget represents approximately 1.5% of the GDP. Procurement is roughly 38% of the defense budget.

In keeping with its national security policy of an independent, credible defense, Finland strives to be self-sufficient in certain core industries. Additionally, it seeks maximum domestic added value in its foreign purchases. As a result, Finnish industry is the sole supplier of major end items to the Finnish Navy, and to a large extent to the Finnish Army for vehicles, communications equipment, individual weapons, indirect fire weapons systems, and uniforms. It lacks domestic capability to produce rotary wing aircraft and missile systems.

The Finnish defense industry is in the process of a major restructuring. As the civilian industrial sector moved deeper into privatization, defense industries remained under government control. Thus, Finavitec (formerly Valmet Aviation) was spun off from the parent company, Valmet Industries. Valmet will continue privatization and concentrate on its core businesses. There is currently a move to merge several key defense companies - notably Vammas (indirect fire systems and ammunition) and Vihtavuori and Lapua (ammunition and propellant) - into a large umbrella company named Defense Equipment Corp. They will likely be joined by Finavitec and possibly Sisu. Other key defense firms include:

- *Elesco* - Communications, Hydro acoustics, Fire Control Systems
- *Nokia* - Communications, Fire Control and Microprocessing Systems
- *Rauma Oceanics* - Deep Submersibles
- *Temet* - Underground Shelters
- *Finnyards* - Shipbuilding and Marine Technology

- *Kvaerner Masa Yards* - Shipbuilding
- *Jantronic* - Vehicular Electronics and Vehicle Layout Design
- *Kemira* - Powder and Explosives
- *Forcit* - Powder and Explosives
- *Vaisala Technologies* - Marine Engines and Meteorological Equipment
- *Environics* - Chemical and Biological Warning Devices and Protective Gear

Most Finnish Army equipment is of Russian design. The bulk of the current inventory is the result of a purchase of former East German Army equipment from Germany. Finnish companies and depots have been involved in the refurbishment and upgrade of this equipment. Tactical vehicles, indirect fire systems, and individual weapons are mainly homegrown. Likewise, the ships of the Finnish navy are domestic productions, with some foreign procured weapons and guidance systems. By the end of the decade, the primary fighter aircraft will be the McDonnell-Douglas F-18 Hornet. Approximately 50 British Aerospace Hawk trainers will also remain in the inventory.

Defense Opportunities

Due to the impact of the Hornet buy on the defense procurement budget, major end item procurement before the year 2000 is highly unlikely. Additionally, for the reasons outlined above, many areas of procurement will remain closed to foreign products. However, both the Army and Navy will be due for significant upgrades within 5-10 years. Listed below are potential projects which may be open to U.S. companies:

- Anti-armor weapons systems
- Replacement of the fleet of six MI-8 helicopters
- Minesweeping and mine-laying technologies
- Underwater surveillance technologies
- Electronic warfare/information warfare technologies

Defense Procurement Process

The Ministry of Defense proposes and presents large scale material acquisitions to the Government for approval. The Ministry itself, however, makes all decisions concerning routine acquisitions. The Central Department of the Defense Ministry is responsible for the material acquisition process and defense material export permits. Procurement procedures with U.S. firms are covered under a 1991 Memorandum of Understanding between Finland and the United States concerning reciprocal principles in defense procurement. The agreement covers (1) removing barriers to procurement or coproduction of an item of defense equipment produced in the other country; and (2) utilizing contracting procedures that, at a minimum, allow all responsible sources of both countries to compete for procurement contracts.

Finnish requests for bids are formally advertised through written notification to the Foreign Commercial Office in the U.S. Embassy. An announcement of the bid request is then sent to Washington for publication in the Commerce Business Daily. Offers are routinely submitted through sealed bid, but may continue as a negotiation procedure before a contract is awarded. In an effort to maximize the potential value of foreign contracts to assist Finnish industries, Foreign Commercial Office arrangements have become an essential element of any contract proposal. Defense procurement of US \$10.9 million or more requires a 100 percent offset.

There is also a move to coordinate defense procurement among the Nordic countries in an attempt to cut escalating costs and achieve greater efficiency. Each country would take primary responsibility for exploring cooperation in selected fields. Sweden, for example, would study artillery; Norway would look at air base systems; Finland would look at maintenance of command, control and communications systems; and Denmark would consider the next generation of submarines. The Finnish MOD contacts are:

Mr. Markku Leino
Chief of Commercial Section
Ms. Eija Pekkarinen, M.Sc. (Eng.)
Defense Staff
Finnish Defense Forces
Commercial Section
P.O. Box 919
FIN-00101 Helsinki
Finland

Diversification and Commercial Opportunities

Privatization of Finland's state controlled companies is proceeding gradually. The major Finnish companies undergoing privatization at this time (or proposed to be privatized on case by case basis depending on the state of the company and the market situation) are: Outokumpu, a large Finnish mining company which recently sold Government shares decreasing Government ownership to 40 percent; Enso-Gutzeit (state's ownership currently 44 percent), one of Europe's leading forest industry groups; Rautaruukki (69 percent), a diversified company with expertise in steel and its applications; Neste Oy (84 percent), a Finnish-based international oil and chemicals company; Kemira Oy (72 percent), an international chemicals group; and Valmet Oy (59 percent), the world's leading supplier of paper and board machinery.

Commercial Aircraft

The civilian market for aircraft and parts is almost completely dominated by Finnair, the national airline, and its subsidiaries Karair and Finnavigation. Finnair dominates the market with respect to purchases and market share. McDonnell-Douglas is the major supplier of aircraft in

Finland. The Finnair fleet as of April 1996 consisted of 56 aircraft of which 42 were McDonnell-Douglas planes. Finnair has also made a decision to lease four Boeing 757 aircraft in the near future to maintain competitiveness in traffic from Finland to the Mediterranean.

Aviation

The Finnish aviation industry market, consisting of aircraft and parts and airport and ground support equipment, is dominated by a few major participants. These include Finnair, the Civil Aviation Administration (CAA), and the Finnish Military. The U.S. share of this market is approximately 54 percent, which is mainly based on McDonnell-Douglas' market position in Finland. In the short run, most of the opportunities which do exist are more suited to smaller sized U.S. companies, which can provide spare parts or operate as subcontractors to major suppliers, like McDonnell-Douglas or Siemens-Plessey.

Medical Equipment

The United States is Finland's leading foreign supplier of medical equipment, with a market share of 22 percent. Finns look for the latest available technology in the market. Modern MIS (mini invasive surgery) is already commonly used in local hospitals. Also, the need to improve efficiency in hospitals has increased the use of MIS technology. The MIS technology includes products such as MIS instruments, scopes, light sources, insulators, and video endoscopes. The market for MIS technology is expected to increase in the future, offering potential for U.S. suppliers. Another best prospect for U.S. companies is medical electronics used in cardiology, as heart disease is very common in Finland. Other medical electronics offer also good market potential for U.S. suppliers.

Law Enforcement

About 80 percent of security electronics equipment is imported to Finland. There is also some local manufacture, including products such as control panels, and access control hardware and software. Surveillance devices and systems such as passive and active surveillance systems and equipment offer good potential for U.S. suppliers.

Environmental Technology

Imports cover about 45 percent of the total environmental protection and control equipment market with an expected growth rate of about 10 percent during the next three years. The United States has about a 10 percent import market share of environmental protection and control equipment.

Potential for U.S. suppliers is particularly high in the following areas: monitoring, measuring and sampling instruments for detection of PCBs and air pollution dioxides, sulphur

dioxide emissions removal technology, nitrogen oxide emissions removal technology, and dust reduction equipment, and soil remediation measuring and purifying equipment.

The largest ongoing projects are focusing on the main environmental problems in and around St. Petersburg, Karelia and Estonia. These projects offer U.S. companies, in cooperation with Finnish companies, interesting possibilities in the fields of technical consulting, contracting, direct equipment deliveries, investments, and financing.

Electronic Components

There are three major competitors in the Finnish electronic components market, the United States with an import market share of 20 percent followed by Japan (18 percent) and Germany (13 percent). Local production in the electronic component field is very low, covering mainly manufacture of printed circuits, switches, and electrical connectors. Companies such as Nokia and ICL Personal Systems have been able to increase their exports substantially. Depending on the development of Finnish exports of electronics, it is expected that imports of electronic components will increase by about 15 percent during the next three years. However, import of products such as semiconductors and integrated circuits, where American companies have a substantial market share, are expected to increase by 30-40 percent over the same period.

Finnish Government Agency Points of Contact

Mr. Bo Goran Eriksson, Director General
Ministry of Trade and Industry
Aleksanterinkatu 4
FIN-00170 Helsinki, Finland
Tel: (358-0) 1603 621
Fax: (358-0) 1603 666

Mr. Jorma Nykanen, Director
Ministry of Interior
Kirkkokatu 12
FIN-00170 Helsinki, Finland
Tel: (358-0) 1602 850
Fax: (358-0) 1602 945

Mr. Juhani Hulkko, Director
Civil Aviation Administration
Ilmailutie 9
FIN-01530 Vantaa, Finland
Tel: (358-0) 827 71
Fax: (358-0) 8277 2200

Mr. Heikki Sisula
Ministry of Environment
Ratakatu 3
FIN-00120 Helsinki, Finland
Tel: (358-0) 199 11
Fax: (358-0) 1991 345

Doing Business in Finland

Selling factors and techniques are very similar in Finland to those in the U.S. Terms generally applied to international trade with industrial countries apply to selling in Finland. This is a modern, post industrial country having close relations with other Nordic countries. Social and business protocol is similar to that in the U.S. Relationships are important within the society and business as Finns prefer to deal with people they know and trust.

Export/Import Controls

Finland has modified its export control legislation pursuant to the EC Export Control Regulation on Dual-Use Goods 3381/94 and Council Decision 94/942/CFSP which became effective as of July 1, 1995. New legislation on Export Control of Dual-Use Goods was submitted to the Parliament in May 1996.

The Trade Department of the Ministry of Trade and Industry grants licenses for the export of dual-use goods except for nuclear goods and rockets and propulsion systems. The Ministry also has an Advisory Board on Export Controls which coordinates export controls of dual-use goods and technologies.

The Ministry of Defense grants licenses for exports of arms and missile technology, including rockets and propulsion systems. The MOD's Advisory Working Group for Exports of Defense Materiel coordinates export controls of military items.

The Ministry of the Interior is responsible for export and import licenses for civil ammunition. For more information on these export controls, contact:

Mr. Eero Aho
Senior Advisor
Ministry of Trade and Industry
Aleksanterinkatu 4
FIN-00170 Helsinki
Finland
Tel: 358-0-160 4691
Fax: 358-0-1604 622

Finland follows import licensing procedures of the EU. Licenses can be obtained from the National Board of Customs. Certain agricultural products such as cereals, flour, certain fats and oils, fishery products, butter, cheese, eggs, poultry, meat, cattle, and hogs are subject to import duties and/or fees imposed in accordance with EU rules and regulations. During a transitional period (1995-1998), Finland will be allowed to maintain stricter import regulations on certain agricultural products, primarily in the meat and livestock areas. Finland will also continue its bilateral agreement with the U.S. permitting export of 10,500 tons of Finnish cheese into the U.S. market for at least the next three years.

Tariffs/Duties

With certain exceptions, imports most goods are dutiable and taxable. Upon joining the EU at the beginning of 1995, Finland was required to adopt the EU import duty standards. Imports from EU countries come duty free if the products have been manufactured in one of the member countries. However, Finland does not have a free trade agreement with the U.S. and import duties have to be paid for many goods imported from the U.S. Because the EU has free trade agreements with countries such as Turkey, Israel, the Czech Republic, Slovakia, Bulgaria, Hungary, Poland, Estonia, Latvia and Lithuania, imports of industrial goods into Finland from these countries are duty free.

Foreign Investment

The favorable attitude of the Finnish Government toward direct foreign investment in Finnish business entities was confirmed in 1993 when laws restricting foreign ownership were liberalized. These laws were further liberalized at the end of 1995 by the removal of a restriction on investments in major Finnish companies which would result in more than a third of the stock voting rights in the company being transferred to foreign control. There are also no restrictions on the purchase of real estate by foreign nationals. Because of this liberalization, Finland's entry into the EU, the opening of ex-Soviet markets (creating an opportunity for Finland to act as a gateway), and economic recovery, foreign investments in Finnish companies have increased dramatically in recent years.

However, some restrictions on foreign investment are retained. For example, only Finnish nationals may invest in sectors involved with the production or delivery of national security related items. Other restrictions are retained in certain sectors involving safety or health hazards, or financial risk, and specific requirements are imposed to engage in the business. These regulated forms of trade, governed by section 3 of the Trade Act and by other specific legislation, include banking and insurance; nuclear energy related activities; mining; manufacture and sale of medicinal substances, dangerous chemicals, and explosives; private security services; travel agencies; transportation; fisheries; restaurant and catering services, and real estate brokerage. A non-European Economic Area entity must first obtain a license or provide notification as required by law, to engage in these "regulated" forms of trade. In addition, mandatory labor

pension insurance and workers compensation may only be obtained through a Finnish entity to safeguard compliance with Finnish social security legislation.

The Aland Islands are an exception to the liberalization of Finnish foreign investment. Based on international agreements dating from 1921, property ownership and the right to conduct business in the Aland Islands is limited only to those individuals domiciled there.

The "Invest in Finland" Bureau operates within the government-sponsored Finnish Foreign Trade Association to provide potential investors with detailed information on investing in Finland. For more information contact:

Mr. Nils-Christian Berg
Chief Executive
Invest in Finland Bureau
Aleksanterinkatu 17
FIN-00100 Helsinki, Finland
Tel: (358-0) 6969 125
Fax: (358-0) 6969 2530

Intellectual Property Rights

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements concerning intellectual property. Finland has joined the most important copyright agreements, and patent rights are consistent with international standards. In March 1996 Finland joined the European Patent Convention (EPC).

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations, and catalog producers, is to be adjusted to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. National transition period procedures are defined in Parliament. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years. Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. Computer software has been covered by the Copyright Act since 1991.

Information on copying and copyright infringement is available from several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to their recent survey, the rate of software piracy in Finland (43% in 1994) is one of the lowest in Europe.

Patents

Patents are granted for a 20-year, non-renewable period. American nationals have a one-year period to file a patent application in Finland to receive the benefit of an earlier U.S. filing date. Process patent protection for pharmaceuticals and product patents are currently offered in Finland.

Teaming with Local Firms

Distribution channels in Finland are similar to those in the United States market. Helsinki, the capital of Finland is the major business center with a population of about 500,000. Most head offices of Finnish industrial, commercial associations, and large corporations are located in Helsinki. Many foreign companies also use Helsinki as their headquarters for Baltic and Russian operations.

Goods may be sold through an agent, distributor, established wholesaler, or by selling directly to retail organizations. The majority of Finnish commission agents are members of the Finnish Foreign Trade Agents' Federation, which has 18 divisions for different products. These commission agents are relatively small, private companies, most of them operating in sectors such as textiles, apparel, furnishings, and raw materials.

Privately-owned wholesalers and trading houses are particularly strong in certain specialized sectors, such as electronics, electrical components and instruments, pharmaceutical and health care products, technical products and machinery, raw materials, and chemicals. Most of these importers and wholesalers are members of the Federation of Finnish Trade, which is a central organization for over 25 trade associations covering the bulk of foreign goods sold to Finnish trade and industry.

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Finnish market.

U.S. Embassy

Mr. Peter Frederick
Commercial Counselor
U.S. & Foreign Commercial Service
(resident in Stockholm)
American Embassy
Strandvagen 101
115 89 Stockholm
Sweden

Tel: 46-8-783 5300

Fax: 46-8-660 9181

Mr. Hari Mäkinen
Senior Commercial Officer
U.S. & Foreign Commercial Service

American Embassy
Itainen Puistotie 14 B
FIN-00140 Helsinki
Finland
Tel: 358-0-171 931
Fax: 358-0-635 332

COL Bruce Boevers
Army Attache
Defense Assistance Office
American Embassy

Itainen Puistotie 14 B
FIN-00140 Helsinki
Finland
Tel: 358-0-171 931
Fax: 358-0-171 396

FRANCE

FRANCE

Overview

The U.S. and France share many trade similarities, including their global standing as the world's top two exporters in the defense sector. Overall, France is the tenth-largest trading partner of the United States worldwide and the third-largest in Europe after the United Kingdom and Germany.

The major economic question facing France today is whether economic growth, registering a 2.2 percent increase in 1995, will remain strong enough to enable France to make good on its pledge under the Maastricht Treaty to reduce the government deficit to 3 percent of GDP in 1997. This is required if France is to qualify for the European Monetary Union.

The French government statistical agency INSEE is currently calling for 1.3 percent growth in 1996. After absorbing last summer's increase in the VAT, inflation is running at an annual rate of just over 2 percent.

Despite a strong position taken by President Chirac about reducing the size of France's defense establishment, with solid support from the government of Prime Minister Juppe, stiff pressure from France's strong unions remains. In addition, as of May 1996, unemployment was at a politically unacceptable level of over 3 million - 12.4 percent of the French work force..

Some progress is being made in defense privatization as well as defense restructuring. France has also announced the demise of conscription and the creation of an all-professional volunteer military structure to be fully operational by the year 2002.

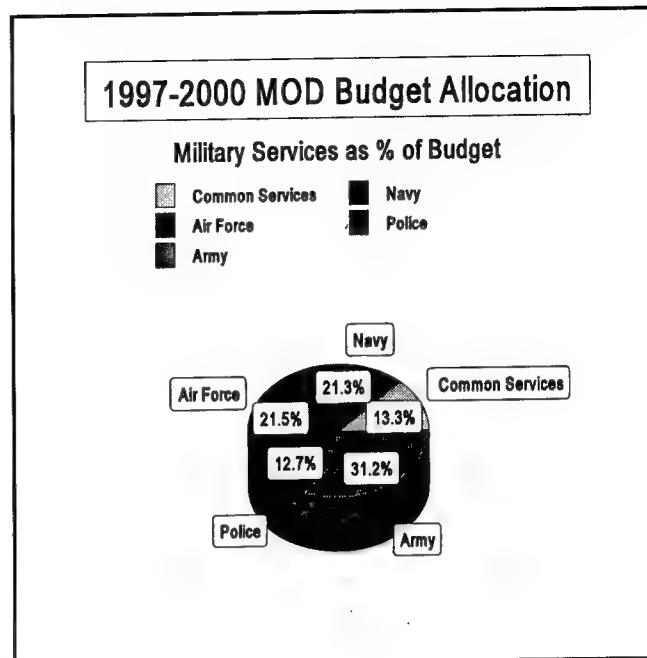
Defense Industry Environment

The multi-billion dollar defense market in France is experiencing profound change, not unlike the recent profound changes experienced by U.S. industry. By any measure, however, the French defense market is large, varied and sophisticated. France produces nearly 90 percent of its own armament requirements. The defense industry serves a large indigenous force and exports to over 25 countries. Exports of French defense equipment and services in 1995 represented sales of US\$ 3.7 billion, with naval sales leading all categories.

Annual defense expenditures beginning in 1997, will be limited to approximately US\$37 billion versus the current US\$41 billion. The budget breakdown shows that an estimated US\$20 billion will be allocated for operations. Another US\$17.5 billion will be allocated for equipment representing an annual reduction of 18% over the 1994 equipment budget.

In most instances, major equipment programs are retained though delayed. The most notable exceptions to this are France's outright cancellation of participation in the development of the Future Large Transport Aircraft (FLA), and its withdrawal from the MEADS development program.

A clearly defined strategy of forging stronger European alliances through increased mergers and acquisitions pervades the current rationalization of France's defense industrial base. As a first step, for example, President Chirac mandated in March that aerospace firms Aerospatiale (government-owned) and Dassault (privately-owned) merge their organizations by 1998. Though the variety of products produced by each are compatible in both the civil and military sectors, the very magnitude of such a government-imposed decision reflects the political commitment to major industrial restructuring. France has also announced the privatization of Thomson by the end of 1996 and the down-sizing of both the chief land and naval organizations, GIAT and DCN.



6

The private sector is already leading the change. Thomson-CSF and GEC recently created a partnership to produce sonars, Dassault and British Aerospace took the first steps to fuse their military design operations, and Matra Defense and British Aerospace merged their missile business into a US\$1.5 billion company. The July 1996 award to British Aerospace of the US\$533 million contract for the Conventionally Armed Stand-Off-Missile (CASOM) is seen as a major step in the move to consolidate Europe's capability in this sector. The winning British Aerospace "Storm Shadow" bid uses Matra "Apache" missile technology while incorporating British subsystems and is hailed as a forerunner of European cooperative projects in the future.

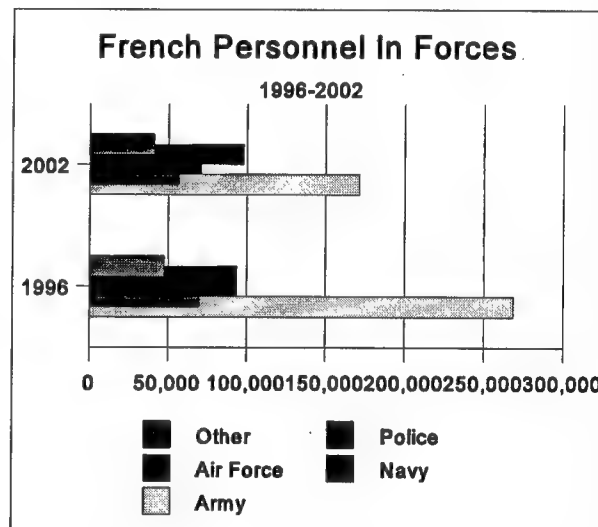
Finally, in approaching the French defense market, it is important to bear in mind that French multinational corporations such as Aerospatiale, Thompson, Matra, Dassault, DCNI, Alcatel, Alsthom, and GIAT contribute significantly to overall market demand with privately financed programs and large scale export activities. These firms are often majority partners in collaborative European projects. The largest of these companies are usually awarded prime

contracts that cover approximately 80 percent of the total French defense equipment budget. In general, prime contractors keep only a small portion of the contract value in-house, preferring to subcontract the remainder.

In May of 1996, the Minister of Defense succeeded in getting a new White Paper on Defense for the period 1997-2002 adopted by the French legislature. The paper contains the broad objectives established by Mr. Chirac's government for the next decade and clearly makes conventional "prevention" a priority over nuclear "dissuasion." Primary policy objectives are:

- End conscription and develop professional French military forces;
- Strengthen and develop a European-based military structure and defense industrial base;
- Continue modernization of major military equipment programs; and
- Reduce costs by 30% related to defense production (over 6 years).

The White Paper on Defense covers not only equipment and service costs, but also establishes specific personnel figures for each of the services. In addition, for the first time, over US\$3 billion has been allocated for financing the costs of social and economic programs related to the professionalization and rationalization of the French forces during this period. The White Paper calls for the continuation of many of the major military programs currently under development but delays real-time production dates. Currently, the privatization of the French defense industry has been delayed due to the election of the Socialists in late spring 1997



Defense Opportunities

Despite the significant reductions announced for the 1997-2002 defense budgets, France is continuing to update its major defense equipment, including submarines, aircraft carriers, helicopters, tanks and aircraft. Program priorities include intelligence gathering, command and control systems, protection of troops, force mobility, and military transport.

France has also completed an exhaustive evaluation of the technological areas determined as critical for national defense purposes. After an arduous examination of industrial capabilities and defense priorities, combined with an economic evaluation of market and defense conversion

potential, the Direction Generale de l'Armement (DGA) identified 30 strategically important equipment sectors and then broke them down into 180 technology segments. Foremost are:

- Composites
- Micro-electronics
- Propulsion systems
- Navigation equipment
- Detection systems
- Stealth technology
- Management and control systems

France strongly supports the development of a European defense industry base - preferably with itself at the head. Germany and the United Kingdom are seen as its best partners in this effort and numerous cooperative programs are currently underway. Among these are:

Army: VBCI light armored vehicle
COBRA radar system

Navy: Horizon Frigates
MU90 Torpedoes

Air: Tiger Helicopters
NH 90
ANF, Apache/Scalp, MILAS missile programs

Despite its public position that Europeanization of its defense industry is the surest way of ensuring the viability of the French defense industry base against the specter of American industrial giants, France has more data exchange agreements with the United States than with any other nation. There are almost 350 active FMS cases worth over one billion dollars underway. France is currently a participant in multilateral ship propulsion (ICR) and datalink (MIDS) cooperative efforts.

Industry-to-industry cooperation is clearly on the rise, as U.S. firms seek opportunities to win European defense competitions through partnerships with European firms. For example, Bath Iron Works and the French shipbuilding organization, Direction de la Construction Navale Internationale (DCNI), are cooperating to build ships for the international market. Dassault Electronique and Texas Instruments are working together to market a radar for the NH-90 helicopter and Hughes has teamed with Aerospatiale to compete for the future medium range air-to-air missile program.

In all, over 40 projects are targeted by France for multinational cooperative development during the 1997-2002 framework, with funds doubling for international programs during this

period. American firms are strongly advised to develop partnerships and joint ventures with French firms as a viable means to accessing these programs.

The status of major procurement programs included in the May White Paper on Defense for 1997-2002 and approved by the French National Assembly in June 1996 are enumerated in the following chart:

FRENCH DEFENSE EQUIPMENT PROGRAM STATUS

<i>Air Force Programs</i>	<i>Orders</i>	<i>Anticipated Delivery Date</i>
Rafale Fighter Aircraft	33	First delivery delayed until 2005
Mirage 2000DA fighters	86 instead of 90	Deliveries until 2001
C135FR tanker aircraft	3 instead of 5	Purchase delayed 2 years until 1997
MICA missiles	1000 instead of 2300	Only 75 to be delivered in 2000
APACHE Scalp cruise missiles	100	Delivery delayed one year to 2002
Cougar Helicopters	4	Delivery in 1997-2002
SCCOA command/control	3 radars canceled	Continued development; Phase 3 in 2000
FLA transport aircraft	50	First deliveries in 2004 of off-the-shelf model
<i>Navy Programs</i>		
Nuclear submarines	2 as planned	Delivery in 1999 and 2002
Rafale Naval Aircraft	60	First delayed until 2002
Patrol Aircraft	22	6 mothballed
NH-90 helicopters	27 instead of 60	Delivery delayed 2 years to 2005
MICA air-to-air missiles	360 instead of 420	30 to be delivered in 2001
PAAMS antiship missiles	240 instead of 300	Delivery delayed 3 years until 2005
ANF future anti-ship missile	320 instead of 540	Postponed 1 year until 2005
Lafayette Frigate	5 instead of 6	Delivery by 2002
Horizon Frigates	2 instead of 4	Delivery delayed 3 years until 2005
Future Nuclear submarine	Continued designing	Order to be placed in 2001
Nuclear Aircraft Carriers	#1 in 1999 #2 in 2015	"Depending on economic conditions"
<i>Army Programs</i>		
Tiger Helicopters	120	Escort version delivery delayed until 2003; attack version delayed till 2011.
NH-90	?	Delayed until 2011

Cobra radar	10 instead of 15	Delivery delayed one year until 2000
Leclerc Tanks	460 instead of 650	
A310 Logistical Aircraft	2	Canceled
<i>Nuclear Forces Programs</i>		
ASMP missiles		Selection in 1996 instead of 1997
M51 sub missiles	specs changed	Delivery in 2010
M4 surface missiles	canceled	Albion nuclear platform closed

NATO

U.S. Government armament objectives for the NATO alliance also represent potential business in France, since a quid pro quo for France's continued political support for NATO is likely to be armaments cooperation. However, it will be necessary for France to engage in a significant effort to integrate its communications and command systems into the existing NATO structure. Some areas of potential cooperation in NATO programs for France are ground surveillance, combat identification, simulation, theater ballistic missile defense, computer aided logistic support, and dual-use technologies (e.g. digitized systems for computing and tracking).

Defense Procurement Process

The Direction Generale de l'Armement (DGA) is the responsible official body for all armament programs for all three defense services and the national police. It controls all research, development, and production in collaboration with the Joint Chiefs of Staff and the three service Chiefs of Staff. To implement the cost-cutting measures sought throughout the DGA's administrative and management layers, Jean-Yves Helmer, previously a senior executive with automobile manufacturer Peugeot, was recently brought in as Chief of Procurement Programs and charged with introducing a competitive philosophy throughout the organization.

As the Ministry of Defense directorate solely responsible for weapons system acquisition, the DGA monitors the private and nationalized firms involved in armaments research and production, and retains tight control over all phases of the acquisition process. It also does all of its own research and development (R&D) for the military services.

The French parliament does not take as active a role as the U.S. Congress in the line-by-line preparation of the defense budget. The French Parliament provides broad oversight and approves the budget as a whole.

The DGA is currently run by about 1000 well trained Armament Corps Officers without service affiliation. The DGA also employs about 24,000 white collar workers and 46,000 blue collar workers involved in production at French arsenals. Most Project Managers and R&D

Commanders are military officers who have some technical and R&D management experience as well as extensive operational experience. Despite announced reductions in this management level, the high level of professional expertise can be expected to continue.

The acquisition process in France is characterized by centralization and a structure of coordination and interaction among the various MOD Directorates. Although the responsibility for weapon systems acquisition is centralized within the DGA, each of the directorates plays a role throughout the acquisition process. As a result, continuous coordination and interaction among these directorates is maintained, but the final approval authority for all major decisions rests with the MOD.

The various operational directorates are responsible for managing the design, technical testing, and production of systems and equipment in the armament areas applicable to the land, naval, air, missile, electronic, and data processing sectors. The operational directorates provide the technical expertise and management during the development, production, and testing of weapons systems.

Teaming arrangements are highly recommended when entering the French market. In a few cases, the equipment need may be so great that the Government will forgo its established industrial "Buy European" policy. Not only French partners, but other European partners should be considered. When considering partners, a rule of thumb is French firms first, Germans second, UK third, and other Europeans thereafter.

As a result of the close relationship between the French MOD and the French armaments industry, most contracts are negotiated on a less formal basis than in the U.S. There are three fundamental contracting possibilities for tenders:

- *Automatic Tender* - Similar to a bid invitation; may be "public," openly competed, or "selective" (restricted to certain contractors).
- *Discretionary* - (Appel D'Offres) A Request for Proposal; "public selective," limited to contractors whose performance is well known.
- *Private Contract* - A negotiated contract, used only in rare cases.

When bidding on government contracts, all correspondence and technical documents must be prepared in French. Contracts are signed by the DGA Operational Directorates and are reviewed by permanent review committees and the Comptroller General.

Prime contractors may select their subcontractors for the most part, although for major program acquisitions, the DGA does occasionally direct contracts for socio-economic reasons, i.e. industrial policy. Teaming arrangements are becoming increasingly important as politicians

line up to support the skills invested in the French labor force. Also of growing importance is the quality of offset programs.

There is little evidence of local distribution in armaments trade. In general, end-users obtain equipment directly from manufacturers and/or via government-to-government transactions.

DGA Points of Contact

All U.S. companies should contact the French International Relations Directorate (DRI) of the DGA before pursuing armaments business in France. DRI can also provide a useful guide titled The Practical Guide for DGA Suppliers. DRI is tasked with coordinating France's international armaments commitments. It controls licensing and technical assistance programs and it staffs positions at the United Nations and NATO. The point of contact is:

Delegation General pour l'Armement (DGA)
Director Des Relations Internationals (DRI)
Atlantique - Europe
26, bd Victor
00460 Armees, France
Tel: 011-31-1-45-52-70-87
Fax: 011-33-1-45-52-72-84

The following list includes industry specific contacts within the DGA:

- *Aircraft Construction Directorate*
DCAE
26, Boulevard Victor
00460 Armees, France
Tel: 011-33-1-45-52-43-21
Fax: 011-33-1-45-52-61-17
- *Airframes*
STPA
4, Avenue de la Porte d'Issy
00460 Armees, France
Tel: 011-33-1-45-52-43-21
Fax: 011-33-1-45-52-45-52
- *Avionics*
STTE
129, rue de la Convention
75731 Paris Cedex 15
- Tel: 011-33-1-44-25-87-00
Fax: 011-33-1-45-52-69-77
- *Cannons: STSAT*
Computers: DSTI
10, Place Georges Clemenceau
BP 24
92211 St. Cloud Cedex
Tel: 011-33-1-47-71-40-00
Fax: 011-33-1-47-71-43-50
- *Electronics*
STSIE
Fort d'Issy les Moulineaux
92131 Issy-Les-Moulineaux
Tel: 011-33-1-41-46-36-29
Fax: 011-33-1-41-46-33-08

- *Land Armaments Directorate*
ECSTI
18, Place Georges Clemenceau
BP 13, 92211 Saint-Cloud Cedex
Tel: 011-33-1-47-71-40-00
Fax: 011-33-1-47-71-42-00
- *Quality Directorate*
DQA
10, rue Satius Michel
75732 Paris Cedex 15
Tel: 011-33-1-40-59-50-00
Fax: 011-33-1-45-75-48-45
- *Missile & Space Directorate*
DME
129, rue de la Porte d'Issy
00460 Armees, France
Tel: 011-33-1-45-52-43-21
Fax: 011-33-1-45-52-59-51
- *Naval Construction Directorate*
DCN-STSN
8, Boulevard Victor
75732 Paris Cedex 15
Tel: 011-33-1-40-59-20-00
Fax: 011-33-1-45-54-06-89
- *"Upstream" Research Directorate*
DET./Mission Industrie
26, Boulevard Victor
00460 Armees
Tel: 011-33-1-45-52-56-75
Fax: 011-33-1-45-52-45-72

Diversification/Commercial Opportunities

France has developed highly sophisticated defense, aerospace, and telecommunications industries placing it among the world's leaders in these fields. Faced by pressing economic imperatives, the Government is squeezed between its target of maintaining its position as a major player in international peacekeeping, the increasing political and economic pressure to rationalize the European aerospace and defense industries, and high French unemployment rates.

Since France produces the overwhelming majority of its own defense requirements, most U.S. defense firms are less involved in direct sales exports and more involved in foreign military sales/financing (FMS/FMF) programs, and after-sales technical support and/or corporate representation. Other U.S. defense firms are present in the market in connection with offset programs. By any measure, however, the U.S. defense industry presence in France is not large.

Nevertheless, in relative terms, the U.S. presence is in a league by itself. France operates a fleet of Boeing AWACS, Lockheed C-130's, and recently purchased Northrop-Grumman E2C Hawkeyes. France is also looking to add additional KC135's to its fleet. No other nation comes close to the United States supplying the quantity and value of defense sales to France.

In order to penetrate the French market, companies must provide, above all, access to technology that the French do not have. As a result of its still highly centralized political structure, most opportunities for diversification are still within the national government domain.

Dual use technology applications are leading to the development of such joint Franco/US projects as:

- Immigration Control
- Industrial Vehicles
- Heavy Earth Moving Equipment (flood control)
- Medical Diagnostic Applications

There has been a recent major striking increase in the number of Data Exchange Agreements (DEAS) between France and the United States. Currently, over 350 DEAS cover such diverse subjects as:

- Ceramic Armor
- Advanced Switching Technology
- Electric Gun Technology
- Testing of Robotic Vehicles
- Chemical Agent Detectors
- Missile Seeker Technology

Opportunities for American companies to participate in the realization of these agreements will continue to exist in the future. Key Ministries and points of contact for these product areas are:

- Minister Jean Arthuis
Ministere de l'Economie et des Finances
139, Rue de Bercy
75012 Paris, France
Tel: 011-33/1-40-04-04-04

Fax: 011-33-1-53-18-95-71

- Minister Jacques Barrault
Ministere des Affaires Sociales de la Sante et de la Ville
8, Avenue de Segur
75007 Paris, France
Tel: 011-33-1-40-56-60-00
Fax: 011-33-1-40-38-20-20
- Ministre Frank Borotra
Ministere de l'Industrie des Postes et
Telecommunications et du Commerce Extérieur
20, Avenue de Segur
75007 Paris, France
Tel: 011-33-1-43-19-36-36
Fax: 011-33-1-43-19-54-95
- Minister Bernard Pons
Ministere de l'Equipeement, des Transports, du Logement et du Tourisme
Arche de la Defense
92055 Paris La Defense Cedex 04
Tel: 011-33-1-40-81-21-22
Fax: 011-33-1-40-81-38-11
- Minister Jean-Louis Debre
Ministere de l'Interieur
Place Beauveau
75008 Paris, France
Tel: 011-33-1-49-27-49-27
Fax: 011-33-1-43-59-89-50

Doing Business in France

Although French managers are becoming increasingly international in their outlook, Americans will still occasionally encounter differences in business practices and cultural standards. The following are some basic points to help ensure success:

Financing

In general, France is a cash buyer of defense equipment. However, as a result of the recent reductions in defense equipment budgets, new efforts are being examined to develop private financing initiatives.

Adopting the British approach to "Private Finance Initiatives", Dassault has recently begun discussions with a syndicate of banks to develop US\$1 billion in private financing for the Rafale Air Force squadron, currently delayed until 2005. The banks would then lease the squadron to the Air Force, thus advancing production dates significantly.

Equally creative financing plans are being explored for the FLA transport. Though funds were cancelled in the new Defense White Paper, proponents of the FLA continue to support its development.

There is no official offset policy in France, but offset requirements are often a feature of large contracts, such as the last C-130 sale and the E2C-Hawkeye sale.

Import duties are generally waived for official defense purchases. Commercial purchases in the defense field must apply commercial tax rates.

Customs

All items that are intended to be left in France must be declared with France customs. All goods for commercial use, professional effects, and any prohibited goods must be declared. Goods imported for exhibition may be entered under bond, deposit, or ATA Carnet.

Professional equipment may be temporarily imported into France free of duty and tax under the customs convention on temporary importation of professional equipment. For this purpose, a Carnet may be obtained from the U.S. Council of the International Chamber of Commerce.

Trade Promotion Opportunities

There are several excellent defense trade promotion opportunities in France, as France has always been very active in the support of its defense industry.

Trade shows in France are well attended by foreign delegations, often escorted by French officials. In some cases, all delegation expenses are paid for by the French Government. Upcoming trade shows include:

Name: **Milipol**
Date: November 1997
Location: Le Bourget, Paris, France
Organizer: IMEXPO
92 Rue Legendre
75017 Paris, France
Tel: (33-1)46-27-82-00

Fax: (33-1)46-27-91-63

Milipol, sponsored by the French Ministry of the Interior, is dedicated primarily to the police market, and to a lesser extent the military market.

Name: **Eurosatory '98**
Dates: June 1998
Location: Le Bourget, Paris, France
Organizer: Commissariat General Des Expositions Et Salons Du GICAT (COGES)
64 Rue du Ranleigh
75016 Paris, France
Tel: (33-1)42-30-71-11
Fax: (33-1)42-30-70-88

Held every two years, Eurosatory is the world's largest land defense trade show.

U.S. Government Points of Contact

The following is a list of U.S. contacts that may be helpful to U.S. firms interested in the French market.

U.S. Embassy

U.S.&FCS
American Embassy
2, Avenue Gabriel
75382 Paris Cedex 08

Tel: 011-33-1-43-12-25-42
Fax: 011-33-1-43-12-21-72

Office of Defense Cooperation
American Embassy
2, rue Saint Florentin
75382 Paris Cedex 08

Tel: 011-33-1-43-12-47-12
Fax: 011-33-1-43-12-45-61

U.S. Industry Associations in France

U.S. Aerospace Industries Representatives in Europe (USAIRE)

4, Place de la Defense
92090 Paris, La Defense Cedex 26
Tel: 011-33-1-47-76-65-98
Fax: 011-33-1-46-98-09-01

French Points of Contact

French MOD in the U.S.

Embassy of France
Armament Section - DRI
Reservoir Road, N.W.
Washington, D.C. 2000-2172
Tel: 202-944-6440
Fax: 202-944-6447

French Industrial Associations

Comite Richelieu
98 Av. du General Leclerc
92100 Boulogne, France
Tel: 011-33-1-46-04-55-03
Fax: 011-33-1-46-04-55-38

Association of small/medium-sized high-tech defense firms

Defense NBC
11, rue Laugier
75017 Paris, France
Tel: 011-33-1-47-63-10-87
Fax: 011-33-1-47-63-13-62

Concerned with nuclear, biological, and chemical warfare issues

GICAT
64, rue du Ranelagh
75016 Paris, France
Tel: 011-33-1-44-14-58-21
Fax: 011-33-1-42-30-80-89

Association of land defense manufacturers

GIFAS

4, Rue Galilee

75782 Paris Cedex 16, France

Tel: 011-33-1-53-23-33-33

Fax: 011-33-1-47-20-00-86

Association of aerospace manufacturers

Office General de l'Air (OGA)

33, Avenue des Champs-Elysees

75008 Paris, France

Tel: 011-33-1-42-25-99-85

Export promotion agency for French aeronautics manufacturers

GERMANY

GERMANY

Overview

The past year was significant for Germany's Armed Forces as Germany continued to increase in its NATO responsibilities as its global role steadily evolved. Having made the decision to participate in the Implementation Force (IFOR) in Operation Joint Endeavor, Germany deliberately, yet carefully, entered into a new era. Their participation in the Stabilization Force (SFOR) further solidified their role as a full partner in NATO. As a result of the events of this past year, the German Armed Forces are now planning for deployable forces in the form of the Crisis Reaction Corps, with the tactics and equipment to support them.

This evolution comes at a challenging time. With German fiscal policy being shaped to comply with European Monetary Union standards, rising unemployment and the continued high costs of integrating the former DDR, defense budgets are declining in real terms. At the same time the operational costs for out-of-country missions and requirements for new equipment are increasing.

The 1997 German defense budget was set at DM 46.3 billion (US \$29 billion), down from DM 48.24 billion (US \$30 billion) the year prior, with several key programs canceled or initially going unfunded. Investment accounts for 22.5%, with the remainder devoted to personnel and operating expenses. Included in investment costs are procurement, research & development, testing, and construction, with a total of DM 2.8 billion (US \$1.75 billion) earmarked for R&D and testing, and DM 5.4 billion (US \$3.375 billion) earmarked for procurement. While Germany's goal is to have 30% of the overall defense budget allocated for investments during the 1998-2000 time frame, fiscal realities have kept them from realizing that goal.

The German Government introduced the "Bundeswehr Plan, 1994 - 2006," in December 1992, and it remains the cornerstone of defense planning today. This plan reduced procurement spending by DM 24 billion (US \$15 billion). These cuts were in addition to the DM 43.7 billion (US \$27.3 billion) reductions of the 1993 plan. These reductions will be realized through the extension of procurement schedules, program cancellations, and reduced purchasing. The cabinet also ordered a reduction of DM 863 million (US \$539.4 million) in the 1993 defense budget shortly after the adoption of the 1994 Bundeswehr Plan.

Defense Industry Environment

Although Germany does not seek to become self sufficient in defense production or have firms solely reliant on arms contracts, domestic firms receive approximately 85% of defense spending which includes research and development, procurement, and maintenance.

Virtually all defense contractors in Germany are privately owned, but many have stock owned by federal states or banks. Competition is allowed for contracts at all stages, from program definition to final production. With regard to industry structure, the German industrial giant Daimler-Benz acquired the aircraft manufacturer MBB. This action became the focal point of restructuring the German defense industry, which is one of the most technologically advanced in the world. Daimler-Benz has also incorporated the aircraft firm Dornier, engine manufacturer MTU, and the electronics firm AEG. Daimler Benz Aerospace (commonly referred to as DASA), a group within Daimler-Benz, has combined the proficiency of Dornier, Motoren und Turbinen-Union (MTU), Telefunken Systemtechnik (TST), and MBB. These acquisitions have made Daimler-Benz the seventh largest defense firm in the world, and the third largest in Europe.

As a condition of the Daimler-MBB merger, the Federal German Economics Ministry insisted that Telefunken Systemtechnik and MBB disburse their naval projects. These endeavors were renamed DMT Maintechnik and MSG Marine-Und Sondertechnik. Bremer Vulkan purchased both firms and integrated them into Systemtechnik Nord (STN). DASA, as another condition, was required to accept the financial risk of the production responsibilities of MBB in the Airbus Industrie, and to sell all Krauss-Maffei shares it possessed. Almost 80% of German industrial capabilities in the aerospace sector are controlled by DASA. The German defense and aerospace market, as well as an increasingly competitive European market, are expected to be dominated by DASA. In an effort to improve its financial health, DASA sold off troubled Fokker (NL) in 1996.

The Diehl Group, in collaboration with Matra, acquired Bodenseewerk Geraetetechnik (BGT), the latter taking a 20% stake in the consolidation.

Analysts expect the German defense industry to undergo further concentration in an effort to reduce overcapacity. In 1996, German defense firms faced a mixture of challenges from within Germany and Europe as well as from the U.S. The shrinking defense marketplace, strict arms export laws, a cautious approach to intra-European consolidation, high labor costs, and an unfavorable exchange rate have all had an impact on the German defense industry. Also giving them cause for concern was the record number of U.S. corporate mergers, the most recent being between Boeing and McDonnell Douglas. Consolidations and mergers of German and European firms will generally not achieve the same efficiency as those of U.S. firms. While consolidation in pursuit of efficiency is favored, government officials at all levels find downsizing and layoffs politically difficult to accept. Structural impediments within multinational corporations, many resulting from the legally binding conditions of program Memoranda of Understanding, will remain for the foreseeable future.

Recognizing the difficulties inherent in multinational mergers, top officials of Daimler-Benz Aerospace, AG, Munich, now appear to favor a national consolidation of Germany's defense industry before looking for structural alliances abroad. This is a turnaround from their previous position. This, according to one company official, would give German industry a stronger hand when negotiating mergers with other European companies. It would also ensure that German companies do not disappear by being absorbed into pan-European behemoths. Following such national consolidations, German firms could take the next step - European consolidations. A suggested "core" would be the Airbus Industrie consortium of Aerospatiale, Daimler-Benz-Aerospace, British Aerospace and Spain's Construcciones Aeronauticas, SA. While this discussion centered on aerospace firms, it typifies the German corporate landscape. German defense firms maintained close contact in 1996 with their members of Parliament. Regardless of party platforms, parliamentarians are more willing to listen to defense industry leaders in hopes of reducing the high levels of unemployment in their districts. These contacts are expected to increase in 1997.

Nevertheless, these factors, combined with fewer orders from the government, are causing a number of German defense companies to join cooperative efforts with other European and U.S. firms and trans-Atlantic teaming, whether strategic or project related, is becoming more common.

Germany has traditionally used foreign military sales (FMS) channels when purchasing systems from the U.S. However, commercial sales over the last ten years have increased proportionately. Cooperative programs are also gaining increased emphasis and interest. With a goal of reducing costs and obtaining the best technology available, the U.S. Department of Defense has initiated discussions to facilitate longer range bi- and multilateral planning, with a goal of increased harmonization of future requirements which could lead to more cooperative programs.

Defense Opportunities

The sophisticated German market offers a wide variety of defense opportunities in the areas of equipment upgrades and new equipment. U.S. firms should be aware that Parliamentary approval is required for any program valued at over DM 50 million (US \$31.25 million). This additional scrutiny in the political arena not only evaluates the military requirement and the program's capability to meet those requirements, it also evaluates the impact on German jobs. This final factor is becoming increasingly critical to a program's support and continuation.

The environment of European politics and military posture has changed dramatically in the past few years. These changes have forced a united Germany into a reorganization of its military structure, required the military to perform new missions, and caused a re-evaluation of planned defense spending. The strength of the German Armed Forces was reduced to 370,000

personnel by the end of 1994, and further reductions are planned. In addition, the larger than expected costs of unification have caused restraints in the military procurement budget. The combination of budget restraints and the limits imposed by export laws, is putting pressure on German firms to find cost-sharing partners for production, and research and development of defense merchandise. U.S. firms can profit, even in the current restrictive spending environment of Germany, by joining with German firms in efforts to fulfill defense requirements.

Equipment Upgrades

The unification of Germany included the merging of the two armed forces and their inventories. Most of the East German equipment was supplied by the Soviet Union. Some of this inventory is being retained by the German government. The platforms intended to be kept as interim systems include MiG-29 fighter, AN-2, IL-62, L-410, and TU-154 transport aircraft, and MI-2, MI-8, and MI-14 helicopters. Surface-to-air missiles, and surveillance and air traffic control radars will also be kept. The twenty-four MiG-29 aircraft were upgraded to improve airframe and engine reliability. Conformity to western standards was also made to cockpit instrumentation. Few additional funds are forecast for upgrades of this equipment. Scarce defense funds will be appropriated for their replacements.

Aircraft

Tornado Aircraft - The different variants of the Tornado aircraft continue to be upgraded. This effort began in 1994 with the Interdiction Strike Tornado (IDS) to improve the Electronic Warfare suite and on-board radar. Next will be the upgrade of the Electronic Combat and Reconnaissance (ECR) aircraft to include installation of a Emitter Location System (ELS), Infrared Imaging System (IIS), Forward Looking Infrared (FLIR) sensor, Combined Electronic Map Display (CEDAM), Computer Symbol Generator (CSG), Operational Data Interface (ODIN), a Global Positioning System (GPS), and various avionics improvements. Options to install a Synthetic Aperture Radar (SAR) are being reviewed. Armament upgrades include the HARM air-to-ground missile and a Litening laser designator for use with GBU-22/24 munitions. Funding is programmed through 1999. An IIS requirement was deleted in 1996.

F-4 Phantom Aircraft - Upgrades include the Improved Combat Efficiency (ICE) program (radar, airframe, and aircraft survivability suite) which will extend the F-4's operational life until 2002. DASA is the prime contractor.

Combat Vehicles

Gepard Anti-Aircraft System - Upgrades will improve its capabilities to support the Crisis Reaction Corps. A first phase contract has been awarded for 147 vehicles, including air conditioning improvements and developing improved ammunition, the (Frangible Armored Piercing Discarding Sabot (FAPDS) round, beginning in 1998. A second phase will upgrade the remaining 338 Gepards to keep them in service until 2015.

Marder I Armored Vehicles - Upgrades through 1998 will convert them from A1 and A2 status to A3. Included are weapons system and fire control improvements. The NGP is planned to replace the Marder in approximately 2007.

Leopard IA5 - The Army will retain 325 Leopard IA5 models to be used as field artillery observer vehicles due to their armor protection and night sighting capabilities. This work will begin in 1999.

Leopard 2 Main Battle Tank - The Army has upgraded 225 Leopard 2 Main Battle Tanks to the Leo 2 II configuration. An additional 125 will receive this upgrade, to be completed by 2003. The frontal armor and command and control systems will also be upgraded. The capability of the cannon and munitions will also be increased. Consideration has been given to the impact of the upgrades on the Biber Armored Vehicle Launched Bridge so that the weight limits of both are now MLC 60.

M113 - In 1997-2000, the Army is planning to upgrade a portion of the M113 fleet. Plans call for 300 M113s with service weights over 12 MT to receive new MTU diesel motors and six speed ZF automatic transmissions. The driver's station will also be upgraded by removing the laterals and installing a conventional steering "wheel." The intention is to market this upgrade package worldwide. Additionally, Germany's remaining 1,600 M113s will receive brake upgrades.

Ordnance

DM2A1 Seehecht Torpedoes - The Navy plans to upgrade 116 DM2A1 Seehecht torpedoes to match the DM2A3 design, with an option to include 63 more torpedoes in the project. Systemtechnik Nord (STN) is the prime contractor, with Norwegian firms performing subcontract work.

Missiles

ROLAND Air Defense System - Scheduled for upgrade in the 2002-2005 time frame, Germany would consider a joint program with France in order to reduce costs. It is intended to keep this system in service until 2015. A new system (possibly MEADS), based on the GTK chassis, is planned to replace the ROLAND at that time.

Multiple Launched Rocket System (MLRS) - Development continues on the Extended Range Guided Rocket.

New Equipment

Aircraft

Eurofighter 2000 (EF 2000) - Because Germany's most highly visible defense program is frequently in the news and surrounded with controversy, it's sometimes difficult to recall that there is a viable military requirement for this aircraft. Germany is partnered with Italy, Spain and the UK. The effort was originally called the European Fighter Aircraft (EFA), but in 1992 Germany decided not to proceed with production plans of the EFA as designed. Changes in the program resulted in the new Eurofighter 2000. This effort is an attempt to fill the recognized necessity of a new fighter for Germany, to be introduced around the year 2000. Following negotiations in January 1997, the partners agreed to produce a total of 620 aircraft at an estimated cost of DM 85.8 billion (US \$53.6 billion) with the U.K. buying 232, Germany 180, Italy 121, and Spain 87.

With respect to German funding for the EF 2000, an additional DM 2 billion over the funding contained in the current defense budget is required for development between 1998 and 2001. In a unique solution, it is proposed that half of this DM 2 billion (U.S. \$1.2 billion) will come from within the existing defense budget and half from a special finance ministry allocation, with a decision expected by March 1997. The ripple effect on other defense and social programs bears watching. As of January 1997, no decision has been made on a simulator.

NH 90 (NATO) Helicopter - This is another joint international program including Germany, France, Italy and the Netherlands. Two versions are to be produced: the *NATO Frigate Helicopter (NFH-90)* is a Frigate based variant which will perform anti-submarine warfare (ASW), search and rescue (SAR), and anti-shipping missions; and the *Tactical Transport Helicopter (TTH)* is intended for use by the ground forces. As of October 1996, current production figures are: Germany 243 (reduced from 272); France 160 (down from 220); Italy 224 (up from 212); and the Netherlands 20. Germany's decision to slip its in-service date for the NFH-90 leaves only the Netherlands expecting deliveries prior to 2005. The other NATO partners have decided to delay NFH-90 deliveries until 2007. This has opened a discussion whether to delay the preproduction contract for the naval variant by two or three years. France and Germany have agreed to have one production line for each model they order, and Germany wants both to be produced at Eurocopter Germany. A additional NFH-90 production line is planned to be at Italy's Augusta.

Super Lynx Helicopters - Because of the slip in deployment of the NFH-90, Germany announced in October 1996 that they will purchase seven Super Lynx helicopters, valued at \$156.6 million. Westland officials hope that this will lead to upgrade work on Germany's 17 MK88 Sea Lynx helicopters, bringing them up to the same standard as the Super Lynx. Negotiations are underway to have Westland retrofit the first helicopter, with Eurocopter Germany upgrading the other 16 under Westland subcontract. With regard to the Army version, France has delayed the fielding of the Troop Transport Helicopter (TTH) until 2011.

Unterstützungshubschrauber (UHU) (Tiger) - Under development by France and Germany, the UHU is to be used in anti-tank missions and for combat support. Although test flights began in 1991, a final decision of the exact configuration of the UHU will vary between France and Germany. Germany plans to purchase 212 aircraft and the French 215. French deployment is slated to begin in 2003. Germany and France are pressing to conclude negotiations regarding consolidation of the assembly lines. Without consolidated assembly lines, it is unlikely that Germany and France will be able to achieve the 10 percent cost reduction per aircraft they strongly desire.

UH-1D Helicopters - The German Federal Border Police (Bundesgrenzschutz) plan to replace their fleet of UH-1D helicopters with twin engine models specially equipped to perform border patrol missions. Reportedly, the Eurocopter-135 has been selected to fill the Observation Helicopter requirement. Selection of a helicopter to fill the Light Transport Helicopter requirement is pending, as of August 1996. Bell Helicopter Textron, Inc. signed a Memorandum of Understanding with Dornier Lufthart GmbH.

CH-53 Helicopters - As Germany continues to plan for out-of-country operations, equipment to support such operations will be required. While exact requirements are being developed, it is likely that they will mirror the U.S. priorities, albeit modestly. However, in response to budget realities, the Bundeswehr canceled the requirement for an interim Combat Search and Rescue Helicopter and will upgrade 19 CH-53Gs. Due to the lower cargo capacities of the NH-90, service life extensions for at least a portion the CH-53 fleet are envisioned, bringing its useful life out to approximately the year 2030.

Maritime Patrol Aircraft (MPA) - Although the German Navy is currently seeking funding to upgrade their Atlantique MPA fleet to extend its useful life to 2010, the German and Italian Navies have signed a cooperative agreement to procure 10 and 17 new MPA aircraft, respectively, with deployment beginning in 2007. Emphasis is being placed on an off-the-shelf procurement, possibly the latest Atlantique or P-3 Orion model.

Allied Ground Surveillance (AGS) - The U.S. candidate, the Joint Surveillance and Target Attack Radar System (JSTARS), is being recommended as a NATO solution using the NATO Owned - Joint Operated (NOJO) concept which was previously used in the NATO AWACS program. The flying platform consists of a Boeing 707-300, which has been equipped with a multi-functional radar with Synthetic Aperture Antenna (SAA). The sensor comprises the following operational modes: Wide Area Surveillance (WAS), Moving Target Indicator (MTI), Synthetic Aperture Radar (SAR), and Fixed Target Indicator Radar (FTIR). Manufacturer Northrop-Grumman is actively discussing teaming and manufacturing arrangements with European partners. At the NATO National Armaments Directors Conference in November 1996, they were unable to agree that the AGS system was an urgent NATO requirement. This would have enabled the AGS to become a fast track procurement. In 1997, NATO will explore two options: an immediate AGS buy and an alternative plan would push acquisition beyond

2000. The decision is expected by the fall. The program is expected to cost several billion dollars over a decades-long development and production schedule, as Germany favors the deliberate plan due to budgetary constraints. Another significant milestone will be obtaining agreement on NATO's operational requirements.

Future Transport Aircraft (FTA) - The status of this program, also referred to as the Future Large Airlifter (FLA), will be tenuous for several years. While German funding for procurement has been planned beginning in 2005, no research and development funding has been identified. FLA participants are Belgium, Britain, France, Germany, Italy, Portugal, Spain, and Turkey. The major players, France, Germany, and the U.K., have reached agreement on the framework of the program, which is of significant interest to their aviation industries. Germany has a requirement for 75 FTAs and France 50 FTAs. Germany envisions replacing most of its C-160 aircraft with the FTA. The governments of both nations wish to utilize the single phase commercial approach for this program. However, this does not appear to be the desire of their respective industries which prefer government funding throughout.

Enhanced Fighter Maneuverability (EFM) X-31 - This program, which provided data to improve the maneuverability and survivability of fighter aircraft and was pursued by a joint venture of DASA and Rockwell International, was successfully completed in 1995. Discussions were held to explore using the X-31 aircraft for further tests, first in the Multi-Axial Non-Tail Experiment (MANX) and then in the Advanced ESTOL Nozzle and Tailless (ADVENT) programs. No future U.S. or German funding has been identified.

Ships

To maintain minehunting capability, the Navy initially ordered ten Type 332 Minehunter Vessels. With additional funding, two additional ships were ordered from STN Atlas for an estimated DM 330 million (US \$206 million). The government approved the purchase of six type 404 Depot Ships for 1994, intended to replace the Navy's Rhein Class. Four KSV 90 (Type 702) Combat Support Ships are to be purchased and entered into service around the year 2000. The first two ships are to be built after 1998, the remaining two after 2006. The Navy will replace existing Type 724 tugs with six Type 725 tugs. Delivery is expected between 1994 and 1997.

124 Class Frigates - The aging Lütjens-Class destroyers are to be replaced by the 124-class Frigates around the year 2000. The new frigates will be the result of an international effort between Germany, the Netherlands and Spain. The German Navy has taken delivery of all Frigate 123s (ASW) and the German parliament has approved the purchase of three Type 124 frigates with an option to procure a fourth at a later date. The contract is worth DM 2.9 billion (US \$1.8 billion). The first commissioning is scheduled for 2002. Currently, the Advanced Phased Array Radar (APAR) system is being developed for the F-124s. Should difficulties be encountered, the AEGIS radar would be considered.

U-212 Attack Submarines - A new attack submarine was needed in the 1990's for deployment in the North Sea. As a result, the German Navy signed contracts in 1994 for four U-212 submarines, to be delivered between 2003 and 2006 by HDW and TNSW. The central element of the U-212 program is the air independent fuel cell propulsion system based on hydrogen-oxygen electrolysis which would enable the submarine to move underwater for 20 days. An additional benefit of this technology is that it is both a "quiet" and a "cold" propulsion system. Germany has signed an MOU with Norway and the two nations will share common command and control systems, periscopes, torpedoes and sonar systems. In October 1995 the Italian parliament agreed to the procurement of two U-212s, with an option for two more. The German Navy is seeking to upgrade the MK 2A3 torpedo to the new MK 2A4 to take advantage of the Sonar 90's capabilities. The German and Italian Navies are also cooperating on a new heavyweight torpedo which is wire and acoustically guided.

MA2000 Minehunting System - Germany, with one of the largest mine warfare fleets in NATO, is continuing efforts to improve the effectiveness of its aging ships. DASA is the lead contractor and systems integrator for the Navy's MA2000 (Minenabwehr Ausrüstung 2000) minehunting system. Westinghouse, Systemtechnik Nord (STN), Lockheed, Arge, Atlas Elektronik, Diehl, Rhode & Schwarz, Thetis, Institut Für Sicherheitstechnik/Verkehrssicherheit, and Marinetechnik are also involved. The project is currently in its second stage which will be followed by a one-year definition stage, then a 3 to 4 year development stage. All stages are open for bidding.

Missile Patrol Boats - The introduction of a new class of large missile patrol boats is still a requirement, but plans have been affected by budget restrictions.

Type 750 Research Ship - The Navy is also in need of a replacement for its existing type 750 research ship. The purchase of a Swath-type was to meet this requirement, but the 1993 Bundeswehr plan canceled the order. Two type 749 large multipurpose vessels were to be purchased during the 1990's; however, this program has been deferred until after 2005 because of budget restrictions.

Missiles

Medium Extended Air Defense System (MEADS) - In 1996, two contracts valued at \$80 million each were awarded by the NATO MEADS Management Agency to two international teams for the Project Definition-Validation (PDV) phase of the Medium Extended Air Defense System (MEADS). France declined to sign the EMD Phase MOU, so the participating nations are now Germany (25%), Italy (15%) and the United States (60%). MEADS is intended to replace the Hawk Air Defense systems, as well as to act as a low-mid-tier ATBM protection system. The NATO MEADS agency opened its office in Huntsville, AL, on December 16, 1996. New partners are being sought from the NATO nations to further reduce national costs. The contracting authority for this program is the NAMEADSMA General Manager, Lakeside 1, 620 Discovery Dr., Huntsville, Alabama 35806.

Stinger Missile - The Stinger program includes the Netherlands, Greece, Turkey, and Germany. Under U.S. government license, Dornier is producing the missile and will do so until 2001.

Rolling Airframe Missile (RAM) - The U.S. and Germany are involved in a 50-50 production effort being pursued by Hughes and Ram Systems GmbH (a partnership of Bodenseewerk Gerätechnik, Diehl, and DASA). The missile is a ship borne, anti-ship, defense weapon. Germany has recently approved an additional DM 93 million (\$58 million) for the program.

High Speed Anti-Radiation Missile (HARM) - Germany, Italy and the U.S. are cooperating on a program to upgrade a portion of the current inventory and additional new production. This comes following U.S. approval for an exception to the National Disclosure Policy regarding HARM technology. It is anticipated that a trilateral MOU will be signed in mid 1997.

Fiber Optic Guided Missiles - Germany and the U.S. are discussing cooperative solutions to satisfy their requirements for these missiles for Army and Navy applications. The naval variant would be used for submarine launched anti-helicopter defense. The German system is Euromissile's Trilateral Fiber Optic Missile (TriFOM) or Polyphem and the U.S. system is a marine variant of the Army's Enhanced Fiber Optic Guided Missile (EFOGM). The Polyphem missile would be launched from a torpedo tube and fly out on its fiber optic tether to attack anti-submarine helicopters and potentially, marine patrol aircraft. Tests of the naval variant are planned for 1997 and include 16 and 26 kilometer firings. The Polyphem missile is forecast to have a range of 60 kilometers while the EFOGM's range is 15 kilometers. The U.S. Navy has submitted the German system for inclusion in the U.S. Foreign Comparative Testing Program.

ANS (Anti-Navire Supersonique) - This new anti-ship missile is being developed by Aerospatiale and MBB. The ANS is intended to replace the Kormoran and Exocet missiles. Germany is also one of eight countries involved in the development of the Seasparrow.

Panzerabwehrraketensystem (PARS) 3 (Trigat) - This missile being developed by France and Germany with the intention of replacing the Milan, HOT, TOW II and Swingfire Anti-Tank Missiles. Initial requirements are 3,600 for France and 2,544 for Germany. Other countries that may become involved in the project include Belgium, France, the Netherlands, and the U.K. There is international cooperation at the corporate level. Ground and helicopter variants are being developed and fielding time lines with the UHU helicopter are being coordinated. Additionally, two systems are being developed within the program: a medium range, laser beam riding, direct attack missile, and a long range, passive infrared homing, missile. Both nations have funding planned, beginning in 1998. In addition, the French-German-Italian Polyphem program is intended to develop a fiber-optic guided missile to serve ground forces against ground targets.

APACHE Standoff Air to Ground Missile - This program has been deleted from the current budget because the German requirement has changed. Germany is proceeding with its own TAURUS program. The Modulare Abstandswaffe (MAW) (Modular Standoff Weapon) (TAURUS) has had DM 450 million (US \$281 million) funding approved for the development phase and DM 200 million (US \$125 million) has been spent. Reportedly, France is continuing the development of two versions of the APACHE missile. France is forecast to procure 100 of each type from the year 2000 on.

Combat Vehicles

Panzerhaubitze 2000 (155mm Self-Propelled Howitzer) - A new generation of self-propelled artillery has been developed to replace part of the existing stock of M109G howitzers. The PzH 2000, is being produced by Wegmann and Mak, and is intended to fill this requirement. It is capable of firing up to nine rounds per minute out to ranges 30 km. The crew has been reduced from eight to five. The PzH 2000 is scheduled to enter service with the German Army in 1998 with the initial delivery of 185 howitzers. The total German requirement is 594 howitzers. Norway and Italy have joined as partners. Otobreda (IT) concluded a licensing agreement with Wegmann, GmbH, and is expected to produce approximately 100 howitzers for the Italian Army. There is a potential for some component commonality with the U.S. Crusader program. Discussions regarding this issue continue.

GTK Armored Personnel Carrier/Infantry Fighting Vehicle - In cooperation with France and the U.K., the German Army's GTK program will replace the existing M113 and Fuchs vehicles. Up to 1,000 vehicles are required by the Army with initial fielding beginning in 2004. Requests for proposals will soon be published and decisions on cooperation in the development phase will be made in 1997. The value of the combined contract is estimated at \$5 billion.

The Crisis Reaction Corps has a high priority for this system. The requirement is to equip four infantry battalions, two of which are motorized in two-ton trucks. Plans call for the trucks to be replaced with the GTK, beginning in 2004. Combat service support capabilities will be upgraded with other heavy transporters. The Ministry of Defense recognizes the need for fielding, but fiscal constraints are the overriding concern.

Neuepanzerplattform (NGP) Armored Vehicle - Germany is beginning a concept study for this new armored vehicle which is intended to provide high mobility, increased crew comfort, state of the art combat information transfer, and utilize modular construction.

Zobel's Wheeled Amphibious Light Reconnaissance Vehicle - Army plans are to purchase 266 of these vehicles in 1996. The Army is also seeking a 40mm grenade launcher as primary armament for this vehicle.

Wiesel II Air Defense Transporter for the OZELOT Missile System - While upgrades on the Wiesel I have been suspended, the Wiesel II will be introduced in 1999. It will be larger than its predecessor and represents a reasonable compromise for a light (3.9 MT) armored vehicle which is air transportable by the CH-53G.

Panzerschnellbruecke II (Armored Vehicle Launched Bridge) - This is a Franco-German program which Germany intends to continue at its original level. France, however, is still seeking funding. Simultaneously, the first version is being upgraded to MLC 60 to accommodate the increased weight of the Leopard 2 II.

Keiler Mineclearing Tanks - Based on the M-48 chassis, 24 of these vehicles are being fielded to the Crisis Reaction Corps. It incorporates a hydraulically driven arm which has a rotating flail which either destroys or throws the mines and debris to the side of the vehicle. It can clear to depth of 25 cm and a path 4.7 meters in width, with a confidence rate of 98%. Each mechanized engineer company will receive three vehicles.

Ordnance

HE dual-purpose (HEDP), low-velocity, 40mm, grenade cartridge - Developed by Rheinmetall, it is intended to fill the military's requirement for a new 40mm grenade. However, production of the grenade is in question, due to budget restrictions.

DM2A3 Torpedo Propulsion System - Germany, France, and Italy are involved in a program which includes the replacement of this system. STN Systemtechnik Nord has been working on the new DM24, which features a new propulsion system and improved electronics.

G36 Rifle and MG36 Machine Gun - These weapons are anticipated to be temporary solutions for the Army's requirement to replace the G3 assault rifle and MG2 machine gun.

Drones

"Kampfdrohne des Heeres (KDH)" - This program includes the development of a combat drone for deep attack of artillery and armored units. Operations testing is scheduled to take place in April 1998. Funding for production is planned in order to begin fielding the system in 2001. France will make a program decision following the operational testing.

Anti-Radar (DAR) System - This ground-launched drone is still being developed by Dornier, although procurement of the system had been canceled by the 1993 Bundeswehr Plan.

Unmanned Aerial Vehicles - The Army has presented a concept paper to Parliament. Initial concepts are for unarmed aerial reconnaissance and artillery reconnaissance. The LUNA will provide this capability in the close battle area. The AAMIS is envisioned to perform mine

reconnaissance. The MÜCKE is being developed as an EW drone. Lastly, the Taiphun (Typhoon) is a long range reconnaissance UAV.

Satellites and Electronics

Communications and Reconnaissance Satellites - To support out-of-country operations, the German Ministry of Defense has expressed an interest in satellite communications. Having a limited system of their own, they are analyzing all options with both the U.S. and European partners. The initial requirement is to support their forces in SFOR. A follow-on cooperative program is envisioned with development of satellites and ground stations.

Germany and France have agreed in principle to continue development of the HELIOS II reconnaissance satellite. With little funding available, no actual program will be initiated in the near term. No agreement has been signed.

Electronic Warfare Training - The Multi-Service Electronic Warfare Support Group (MEWSG) is a NATO project to create a realistic electronic warfare (EW) training environment for all NATO forces. Stage one covered maritime surface EW training equipment and is complete. Stage two includes airborne standoff jamming capability. Stage three involves a mobile land EW training unit. The final stage will modernize and update equipment.

The Bundeswehr, in attempts at cost savings and environmental protection, is establishing a standard practice of using a wide variety of simulations for training exercises, from warship to aircraft simulators.

ADA programming support environments (APSE) - Ten European and North American countries, including the U.S. and Germany, are cooperating to develop a program intended to enhance APSE. The program includes three main areas of concern: to develop and demonstrate software tools for the APSE to be implemented on two particular computer architectures, using a recognized interface set; to develop tools and methods to evaluate APSEs, and illustrate this technology on the results of the project; and to standardize the requirements and specifications for APSEs to be recommended for use by NATO and participating nations.

Counter Battery Radar (COBRA) - Scheduled to enter production in 1997, it is being developed by Germany (14 systems), France (10 systems) and the U.K. (9 systems). Industry talks continue in an effort to minimize costs. The system must have the ability to counter the threat of long-range artillery and rocket systems.

Defense Procurement Process

Within Germany, the Services create the requirements and submit them to the Armaments Directorate of the Ministry of Defense to approve and prioritize the requirements within a national plan. If required, parliamentary approval is obtained and finally, the requirements are

turned over to the Federal Office of Defense Technology and Procurement (Bundesamt für Wehrtechnik und Beschaffung, or BWB in Koblenz) which will fill the services' requirements. While this is a somewhat simplified description, it clarifies the key difference from the U.S. system where the services are heavily involved throughout the entire acquisition process. It is interesting to note that BWB is a "joint" procurement agency.

During the approval and prioritization process, the National Armaments Director and Minister of Defense must present certain programs to the Parliament's Armaments Appropriation Committee. Programs involving acquisition projects of special significance to the national security and policy, international MOUs, contracts with a value of over DM 50 million (US \$31.25 million), and bills submitted for legal or technical reasons (reallocation of funds or cost overruns for example) must be referred to this seven member committee.

When a program is initiated, it is addressed in close association with the defense industry. Most of Germany's military contracting is done through the BWB. The BWB enters the process at the project definition stage and is responsible for the contracting of pre-development work. If the program is sanctioned, the BWB also awards contracts for full development and procurement.

The BWB will focus on the following areas within the procurement process:

- Project Management
- Systems technology (integration of technical components into a project or complex equipment item)
- System technology in the preconcept phase
- Other R&T tasks not allocated to the establishments
- Procurement (contracts and prices)
- Central/joint technical tasks (at a reduced scope), including quality control tasks
- Central/joint administrative tasks
- Those tasks of the (BWB) division "BA" (POL and equipment) that have not been allocated to the technical centers
- Overall control

The following areas will be handled the Federal Armed Forces' (FAF) research and technical centers:

- Research and technology (R&T) projects, outside those that have been allocated to the BWB
- Technical tasks, not covered by system technology and integration, for the entire material development cycle.

Contracting Process

Contracts in Germany are awarded under one of the three systems of bidding described below.

Public Competitive Bidding - Contracts are awarded after a public invitation for bids to an unrestricted number of bidders. Notices are published in several publications such as the local and technical press and the Federal Tender Gazette (Contact: Bundesausschreibungsblatt, Postfach 20 01 80, 40099 Dusseldorf).

Restricted Bidding - If especially high quality requirements or other specific reasons exclude public bidding, a selected number of companies, chosen under a formal procedure, will be requested to submit bids.

Negotiated Bidding - Negotiated bidding procedure is utilized if use of the formal restricted bidding procedure is not possible for particular reasons such as reliability, special experience, special installations, or type of implementation. Orders are then placed by negotiated contracting. Several firms are requested to bid on a competitive basis. After one company has been selected, the contract is placed after negotiations and on a non-competitive basis.

EBMAT Procedure

Before a new weapon system or equipment can be procured, it is subject to the EBMAT, a procedure for the development and procurement of defense material. The EBMAT is divided into logical sequential phases. The end of each phase is marked by a phase document to prove success. This document forms the basis for the decision to enter into the next phase. One of the criteria in the preparation of the document is whether the project represents value-for-money.

The types contracts that are awarded to industry within the various phases of the EBMAT includes the following areas:

- Study, research and development contracts in the pre-phase, definition phase, and development phase.
- Purchasing contracts within the procurement phase
- Maintenance and repair contracts during the in-service phase.

A brief description of the EBMAT process is outlined below:

Pre-Phase - Document specifies tactical/technical requirements (TTF), and contains the tactical concept (TAK).

Definition Phase - Document specifies military, technical, and economic requirements (MTWF), and contains: final specifications, selection of the prime contractor for the development phase, and a work, time, and finance plan (AZF).

Development Phase - Document contains the approval for introduction into service (EFG), and comprises approval of design, clearance for prototype manufacture, clearance for production of ships, pre-production contract (as appropriate), certificate of functional readiness and operational safety, type approval, certificate of technical qualification, certificate of logistic support capability, certificate of operational use, and design freeze.

Procurement Phase - Document contains the final report called the ASB.

In-Service Phase - The Western European Armaments Group (WEAG) is an association of the European NATO Nations under the auspices of the WEU. Within the European market for defense material, the WEAG Nations periodically issue information sheets on procurement, termed "bulletins." These bulletins provide information on the following topics

- Intended contracting
- Requests for bids
- Awarding of single-source orders
- Contract award after receipt of competitive offers
- Subsequent information
- Opportunities for subcontractor work

Subscription information for these bulletins may be obtained from the following address.

- Verlag Recht und Verwaltung
Tharandter St. 23-27
01159 Dresden, Germany
Tel.: [49][351] 418 2200
Fax: [49][351] 418 2260

Although there are no restrictions on foreign competition for contracts in Germany, the current recession has affected the German defense industry and is causing high levels of intense competition for the limited resources within the federal budget. Although procurement agencies in the Government do not wish to support a branch of industry solely by arms contracts, it is also undesirable to allow the defense industry as it is, to dissolve due to a lack of contracts. Research and development spending of more than DM 10 million (US \$6.25 million) now requires special approval of the Defense Ministry.

Germany follows the GATT Agreement on Government Procurement. The Procurement Code provides transparency and fairness in government procurements. In areas where this Code does not apply, federal and state laws and regulations apply. Additionally, there is limited legal

structure to redress contract disputes. Where there is some structure, jurisdiction may be blurred between the Lander (states) and the federal courts. Cases generally move more slowly than in the U.S. and there appears to be a reluctance to settle out of court.

Key Ministries and decision makers regarding procurement of defense items are as follows:

- Federal Office of Defense Technology and Procurement (BWB)
Konrad-Adenauer-Ufer 2-6
56068 Koblenz, Germany
Tel.: [49][261] 4001
- German Liaison Office for Defense Materials USA/Canada (BWB's Office in the U.S.)
11150 Sunrise Valley Drive
Reston, VA 22091
Tel.: [703] 715 8261
Fax: [703] 715 8240
- Federal Office for Defense Technology and Procurement
Aircraft Equipment Division/Ref. LG
Postfach 7360
56068 Koblenz, Germany
Tel.: [49][261] 400 7700
Fax: [49][261] 400 7630
- Ministry of Defense
Hardthoehe
Postfach 1328
53123 Bonn, Germany
Tel.: [49][228] 1200
Fax: [49][228] 125 357
- Armed Forces Headquarters
Pascalstrasse 10
Postfach 1328
53123 Bonn, Germany
Tel.: [49][228] 1292 00/01
- Federal Armed Forces Material Office
Alte Heerstrasse 81
53757 Sankt Augustine, Germany
Tel.: [49][2241] 15-26/27
Fax: [49][2241] 152657

- Federal German Army (Bundeswehr)
Postfach 1328
53123 Bonn, Germany
Tel.: [49][228] 124500/9402
- Federal German Navy (Bundesmarine)
Postfach 1328
53123 Bonn, Germany
Tel.: [49][228] 5701
- Federal German Air Force (Luftwaffe)
Postfach 1328
53123 Bonn, Germany
Tel.: [49][228] 9636
Fax: [49][228] 126988
- Ministry of Foreign Affairs
Adenauer Allee 99 - 103
53113 Bonn, Germany
Tel.: [49][228] 170
Fax: [49][228] 173 402

Diversification/Commercial Opportunities

Germany's large and diversified economy offers a wide variety of dual-use and commercial business opportunities for U.S. firms.

Privatization/Demilitarization

The privatization of defense production, and research and development firms in Germany is a continuing process with many opportunities for U.S. investors. The most notable transaction of this kind was the acquisition of Industrieanlagen-Betriebsgesellschaft MBH (IABG), based in Ottobrunn, by the U.S. firm, BDM International, Inc. (BDM). IABG provides aerospace testing, systems analysis, operations research, and simulation.

Included in the plan to reorganize the military structure of Germany, is the relocation of many members of the armed services. As a result, almost 75% of the facilities belonging to the former National People's Army of East Germany will no longer be used by the now unified military. Reconstruction of approximately 600 remaining barracks, troop billets, storage sites, training areas and installations, underground installations, dockyards, and airfields is currently

underway. The remainder of the 2,285 installations are being transferred to the federal property offices.

There are also hundreds of U.S. and other allied military installations throughout Germany. The reduction of the allied presence in Germany is leading to the release of many of these installations for private investment. These facilities include shopping centers, hospitals, universities, storage areas, housing units, and airfields. The potential for investment opportunities made possible by the release of these installations is enormous.

Telecommunications

The telecommunications industry is widely regarded as one of the driving forces behind future economic growth in Germany. Whether in the areas of multi-media, mobile communications, or the Internet, telecommunications is the key to unlocking German potential for future economic development. Germany is not only one of the fastest growing markets for mobile equipment, but is also very well prepared for any future technology in this sector. Thousands of miles of high quality fiber optical cable have been installed, especially in the new eastern German states, and make the country ready for the applications of the future. The immense changes in the legal infrastructure and the coming privatization of voice telephony will add momentum to the positive trend. U.S. exports to Germany significantly exceed German exports to the United States, a trend which is expected to continue.

The German telecommunications market is in the process of major changes as the formerly exclusively state-controlled industry is undergoing privatization.

In August 1996, the German Telecommunications Bill (TKG) was enacted. Its purpose is to allow full competition to telecommunications services and to guarantee a functioning telecommunications market in Germany beginning January 1, 1998, as mandated by the EU. The two major milestones of the TKG are the opening in 1996 of an already existing infrastructure for corporate networks to third parties in the field of data transmission in 1996, and full liberalization of telecommunications services on January 1, 1998. The TKG will impact all elements of telecommunications services in Germany, clearly extending far beyond classic telephony. "Telecommunications" is defined in the law as the transmission, conveyance, and receipt of any type of information in the form of signals, speech, pictures or sound, by means of telecommunications equipment.

The authority for all regulations in the future telecommunications market in Germany will be an independent bureau attached to the Federal Economics Ministry. It will represent the interests of the FRG in international telecommunications and postal affairs. A separate ordinance covering the regulatory authority will be issued in August 1996.

Deutsche Telekom AG (DT)

Opportunities for foreign firms have been increasing as the liberalization of the telecommunications market has progressed. Market deregulation notwithstanding, Deutsche Telekom AG (DT) is still the principal customer in Germany for telecommunications equipment and fiber optics, accounting for two-thirds of demand. Worldwide, DT ranks third, after AT&T and Japan's NTT, with international activities including long-distance communications and satellite services.

DT is not involved in manufacturing, and procures its equipment from outside sources. Under its "mixed" management structure (four board members were appointed from the past Deutsche Bundespost Organization while the other five transferred to DT from similar positions in private industry), DT will apparently purchase equipment independent of industrial policy or political considerations, and traditional German suppliers will no longer be given preferential treatment.

With the help of global sourcing, DT intends to realize desperately needed cost-savings, a policy that should open opportunities for U.S. suppliers. For complex systems and equipment, close coordination between DT experts and potential vendors must take place at a very early stage. This coordination may range from a development discussion to temporary strategic alliances, open to all manufacturers worldwide.

Of utmost importance to DT's procurement are vendor-support in finding cost-effective solutions, low logistics costs, sophisticated local service availability, and easy coordination where specifications are interpreted differently. Most U.S. vendors already in business with DT, including AT&T, Bell Atlantic, CNET, COMSAT, Cooper Group, DEC, Hewlett-Packard, IBM, Intelsat, ITT, McDonnell Douglas, Metrison, Murray, Raychem, Raynet, Signatron, Tandem Computers, Tektronics, Tel/Com Sciences, Transpacific Communications, Unisys, and Western Union International, have found it necessary to establish a subsidiary or support facility in Germany.

According to DT's executive director for purchasing, DT will, "... largely refrain from using its own specifications; instead it will apply international standards (ITU-S, ETSI)." DT's management also claims that, in procuring equipment, key factors will be high quality and reliability, reasonable prices and timely delivery, and preference will be given to innovative and future-oriented technology.

DT's purchasing activities are based on a variety of regulations, such as the EU Utilities Directive 90/531/EC in connection with the GATT Agreement, the relevant laws, and the VOL/VOB (Verdingungsordnungen fuer Leistungen/Verdingungsordnungen fuer Bauleistungen), which are federal regulations governing the purchasing activities of all federal agencies. DT has the obligation not to discriminate against individual bidders or countries. Contracts have to be awarded to the bidder with the most economical offer.

Invitations to tender are published in the Official Journal of the European Union and simultaneously in, the "Bundesausschreibungsblatt."

The Supplement to the Official Journal of the EU is published every day, except Sunday and Monday. Contact:

- Official Journal of the EU
2, Rue Mercier
L - 2985 Luxembourg
Tel.: [352][499] 284 260-8
Fax: [352][490] 003

or

- Bundesanzeiger Verlag (Publisher of the Federal Gazette)
Breite Strasse 78-80
Postfach 10 05 34
50445 Koeln
Tel.: [49][221] 202 9-0

Also available from this publishing house are the VOL (contract rules for the award of goods and services contracts), and the VOB (contracting rules for the award of public works contracts).

The Bundesausschreibungsblatt is the national gazette for public contracts awards and it is published every Monday, Wednesday, and Friday. Contact:

- Bundesausschreibungsblatt GmbH
Postfach 40 0 99
Graf-Adolf-Platz 7-8
40213 Duesseldorf
Tel.: [49][211] 370 848-49

In addition, all announcements can be retrieved via the Datex J service of Deutsche Telekom AG.

DT has implemented a prequalification procedure for specified product lines. Procedures are announced in the Official Journal of the EU. These procedures allow the contract awarder to judge interested companies objectively and help to reduce the time required for purchasing activities.

There are three purchasing procedures used by DT, depending on the service to be rendered, the contract value and the completion dates:

- Open procedure (publication without tender restrictions)
- Restricted procedure (provision of information to a restricted group of bidders only)
- Negotiation procedure (single tender action after an international announcement with subsequent competition)

These procedures are characterized by so-called "Phases."

"Phase 1" is the publication of the tender, which for all procedures takes place in the Official Journal of the EU, and in the "Bundesausschreibungsblatt" (the national gazette for public award contracts). The objective of this first announcement is to inform the Telekom' research and technology center (Forschungs- und Technologiezentrum - FTZ) in writing of their interest in the appropriate project. The FTZ is not only Telekom's research branch but also the main contracting party for equipment purchases.

"Phase 2" specifies the deadline for the submission of an application. This phase is not applicable for open purchasing procedures. For restricted and negotiation procedures the deadline may be 10-30 days after the publication. With the application, companies which have not had contact with the FTZ before, must submit a company profile, providing information product line, production capacity, quality assurance system, and references.

"Phase 3" describes the mailing of the tender documents, which takes place 6 days after the receipt of the application in the case of open procedures, and 21-41 days after the receipt of the application in the case of restricted and negotiation procedures. The tender documents include a fixed completion date for the project in question.

"Phase 4" is the submission of the offer, which for open procedures has to be made within 36-52 days, in all other cases within 21 days after the receipt of the tender documents. Submissions must meet the following requirements:

- Correspondence must be in German;
- Prices must specify DM amounts;
- Companies that have had no previous contact with DT must provide references; and
- Responsible points of contacts have to be named..

"Phase 5" is the contract award.

DT's German offices as well as its subsidiaries abroad provide information for interested potential suppliers. Information can also be obtained from DT's German headquarters of the FTZ which takes into account the requirements of the various DT divisions for particular types of equipment.

To obtain general supplier information contact:

- Ms. Annette Kielmeyer

Deutsche Telekom Forschungs- und Technologiezentrum (FTZ)
Section E 21 (Purchasing Methods)
Postfach 10 00 03
64276 Darmstadt, Germany
Tel.: [49][615] 183-6230
Fax: [49][615] 183-6314

or

- Mr. Juergen Zepp
Generaldirektion
Deutsche Telekom
Section F33 (International Purchasing Marketing)
Postfach 20 00
D-53105 Bonn, Germany
Tel.: [49][228] 181-8320
Fax: [49][228] 181-8967

Questions can also be addressed to International Purchasing Support Managers in DT's U.S. subsidiaries:

Mr. Friedel Schwarz
Deutsche Telekom, Inc.
Suite 850
1020 19 Street, N.W.
Washington, D.C. 20036
Tel.: [202] 452-9100
Fax: [202] 452-9555

Headquarters and Eastern Region
Deutsche Telekom, Inc.
666 Fifth Avenue, 34th Floor
New York, NY 10103
Tel.: [212] 424-2900
Fax: [212] 424-2989

Central Region
Deutsche Telekom, Inc.
3 First National Plaza
70 West Madison, 14th Floor
Chicago, IL 60602
Tel.: [312] 214-3214
Fax: [312] 214-3215

Southern Region

Deutsche Telekom, Inc.
1201 Peachtree Street
400 Colony Square, Suite 200
Atlanta, GA 30361
Tel.: [404] 870-9149
Fax: [404] 870-9150

Western Region

Deutsche Telekom, Inc.
44 Montgomery Street, 5th Floor
San Francisco, CA 94104
Tel.: [415] 955-0512
Fax: [415] 955-0513

FTZ Divisions - Within the FTZ, there are three divisions responsible for purchasing:

Purchasing of Systems and
Networks, Division E2
Contact: Mr. Reinhold Sperl

Am Kaveleriesand 3
64295 Darmstadt
Tel.: [49][615] 183-62 00
Fax: [49] [615] 183-30 61

Purchasing of Data Processing
Equipment, Cables, Materials,
Motor Vehicles and Services, Division E3
Contact: Mr. Hans-Werner Rieper
Am Kaveleriesand 3
64295 Darmstadt
Tel.: [49][615] 183-62 70
Fax: [49][305] 5332-7 81

Purchasing of Phone Terminal
Equipment, Division K6
Contact: Mr. Paul-Juergen Arens
Am Kaveleriesand 3
64295 Darmstadt
Tel.: [49][615] 183-57 00
Fax: [49][615] 183-41 39

Aerospace

The commercial aircraft/aerospace industry in Germany is very compact and competitive. DASA, a major international concern, is dominant in the domestic market. Much like U.S. firms, DASA is experiencing the effects of reduced defense spending. DASA and other defense companies in Germany have recognized the need to diversify their products to meet commercial requirements. The struggle of DASA and its competitors to receive both defense and commercial contracts has reduced the window of investment and contract opportunities for foreign participation in the market. At the same time, cost reduction programs and downsizing have also continued.

The situation within the industry is in contrast to the growth in German air traffic, which at more than 7 percent per year is slightly above the worldwide average, thus creating demand for fleet renewals and replacement. The best growth segments are short range commuter aircraft, cargo aircraft, avionics for new and retrofit applications, and other aircraft parts and components. The U.S. is a major supplier of aerospace products to Germany and the favorable dollar exchange rate versus the D-Mark has spurred demand for equipment from U.S. sources. .

Airport Ground Support Equipment

The investment volume required at Germany's 16 international and 30 regional commercial airports is around US \$1.8 billion annually. The target is to increase airport capacity to 120 million passengers per year by the turn of the century. Investments in Germany's largest airport in Frankfurt alone amounts to US \$430 million annually, plus a US \$300 million investment project for Cargo City South in Frankfurt, to be completed in 1997. U.S.-made ground-based air traffic control equipment and aircraft maintenance tools enjoy an excellent reputation, while competition from German and European manufacturers is very strong in the airfield equipment and vehicles segment.

Environment

The legacy of environmental damage, left by the withdrawing powers in Eastern and Central Europe, is of great concern to the German population. Training areas of the former GDR military are a specific focus. Endeavors to clean the environment, especially in Eastern Germany, are continuously undertaken.

Germany now intends to retain more ex-Soviet military hardware belonging to the former GDR, than was originally proposed. Despite these plans, huge amounts of equipment, including most aircraft of the GDR Air Force and approximately 300,000 tons of ammunition, need to be destroyed.

Other Sectors

German medical/diagnostic equipment manufacturers are among the principal suppliers of this type of equipment to the international market, competing even with the U.S. Although existing technologies are often purchased locally, improvements, or even new systems (e.g. new laser technologies), from abroad are welcomed by the domestic medical industry.

The infrastructure in the Eastern regions of Germany is in desperate need of attention. The road network, industrial base, port structure, and housing are in such extraordinarily poor condition that the entire region's interior needs modernization, or even replacement.

Domestic firms providing law enforcement equipment in Germany have historically furnished law enforcement agencies with remarkably high quality, and very competitive, products. These firms have also found very receptive markets elsewhere, including the U.S..

Agency Contacts

Agencies with procurement responsibilities for various product areas are listed below.

Ministry of Economic Cooperation

Fredrich-Ebert Allee 114 - 116

53113 Bonn, Germany
Tel.: [49][228] 5350
Fax: [49][228] 535 202

Ministry of Economics
Villemombler Strasse 76
53123 Bonn, Germany
Tel.: [49][228] 615-1
Fax: [49][228] 615-4436

Ministry of Finance
Graurheindorfer Strasse 108
53117 Bonn, Germany
Tel.: [49][228] 682-0
Fax: [49][228] 682-4420

Ministry of Health
Am Probsthof 78A
53121 Bonn, Germany

Tel.: [49][228] 941-0
Fax: [49][228] 941-4900

Ministry of Postal and
Telecommunication Services
Heinrich-V.-Stephen Strasse 1
53175 Bonn, Germany
Tel.: [49][228] 14-0
Fax: [49][228] 14-8 872

Ministry of Research and Technology
Heinemannstrasse 2
53175 Bonn, Germany
Tel.: [49][228] 59-0
Fax: [49][228] 59-3 601

Ministry of Transportation
Robert-Schuman-PL. 1
53175 Bonn, Germany
Tel.: [49][228] 300-0
Fax: [49][228] 300 3428

Doing Business in Germany

U.S. companies intending to export to Germany must take into account German demography. To a far greater degree than its European neighbors, Germany's population and industry are decentralized and evenly distributed. Major cities and businesses dot the countryside in a landscape which features no single business center. A U.S. supplier seeking sales in Germany must be careful to ensure that its distributor, or its own dealerships, have a country-wide capability. Too often U.S. companies seek to cover Europe from a single European base, or even through periodic visits. The German commercial customer expects to be able to pick up the telephone, talk to his or her dealer, and have replacement parts or service work immediately available. U.S. exporters should avoid appointing distributors with impossibly large geographic areas, without firm commitments regarding parts inventories or service capabilities, and without agreements on dealer mark-ups.

Success in the German market, as elsewhere around the world, requires long-term commitment to market development and sales back-up, especially if U.S. companies are to overcome their natural geographic handicap with respect to their European competitors. One of the most commonly voiced complaints still heard from the German business community is about the American penchant for being here today and gone tomorrow. While this approach can produce occasional one-time deals, it is not the way of the competition, whether it be third-country or German, and is definitely not the way to establish a solid position and reputation in the German market.

U.S. suppliers are too often perceived by Germans as being unreliable, too quick to defer processing an export order in favor of a subsequent domestic order; too likely to bypass a successful distributor to deal directly with the customer; and interested in export sales only when domestic order books are unfilled or there is a fortuitous slip in the exchange rate. Many U.S. companies are not seen as long-term players in the market, and are not viewed as likely to provide adequate after-sales support.

In addition to exhibiting at a German trade fair, in most cases advertising is considered a suitable promotion method. Regulation of advertising in Germany is a mix between judicial rules and voluntary guidelines developed by the major industry associations. Legal rules were established at the beginning of the 20th century by the "Law Against Unfair Competition." This law continues to be valid today, although it has been modified over time. In essence, this law allows competitors to bring suit if advertising "violates good manners."

Many advertising practices that are common in the U.S., such as offering premiums, would not be allowed in Germany. Any planned advertising campaigns should be thoroughly discussed with a potential business partner or an advertising agency in Germany. Contact the German Association of Advertising Agencies:

- Gesamtverband Werbeagenturen E.V.

Friedensstr. 11
60311 Frankfurt A.M., Germany
Tel.: [49][69] 235096
Fax: [49][69] 236883

There are numerous technical or specialized periodicals that deal with all aspects of technology and doing business in Germany. In addition, Germany has a well-developed array of newspapers and magazines, which offer the opportunity to gather information and advertise products and services.

For nearly all facets of doing business, there appears to be an industry or trade association that is active in a particular field and which can often serve as a suitable point of contact when trying to establish a partnership.

Selling to German government entities is not always an easy process. However, although a delay in implementing all facets of the EU Utility Directive -- Germany had not installed appropriate review mechanisms -- led to Germany being threatened with U.S. sanctions under Title 7 of the Trade Act Report, it is safe to say that, in general, German government procurement is non-discriminatory and generally appears to comply with the GATT Agreement on Government Procurement (the Procurement Code) and the European Community's procurement directives. That said, it is undeniably difficult to compete head-to-head with major German or other EU suppliers with long-term ties to German government purchasing entities.

Safety standards not normally discriminatory but sometimes zealously applied, may complicate access for many products. To the extent EU-wide standards are developed, there is a high probability that the existing German standard will form the basis for the eventual European standard. Information on standards and appropriate testing offices is available in the U.S. from:

- National Center for Standards and Certification Information (NCSCI)
National Institute of Standards and Technology (NIST)
Building 411, Room A 163
Gaithersburg, MD 20899
Tel.: [301] 975 4040
Fax: [301] 975 2128

Debate over whether or not the restraining arms export policies of the country should be eased has been continuing for some time. Government policy has traditionally made it difficult to export arms outside of NATO, although legislation of 1982 officially allows sales to countries that are considered "in the vital interests of the Federal Republic." Sales to "crisis areas" however, are still forbidden by law. Also in 1982, the government did agree not to veto sales by international cooperative efforts.

Import License/End-User Certificate Regulations

A request for transfer of defense related articles usually must be supported by end-use and retransfer assurances from the proposed recipient. If the initial recipient is not the final end-user, the final end-user must be identified and appropriate end-use and retransfer assurances provided by both the intermediate and final recipients.

U.S. approval of any third party transfer is heavily dependent on accurate identification of the ultimate end-user and the proposed use of the defense article. If proposed recipients are unable, or unwilling to identify the final end-user and end-use of the defense articles or services and provide nontransfer assurances, the transfer will not be approved. Timely acquisition and submission of the required end-use and retransfer assurances will significantly expedite approval of third party transfer requests, if policy considerations will permit such approval.

Restrictions on Foreign Competition

While procedures vary depending on the nature of the award, Government tendering in Germany is generally open to all qualified suppliers on a competitive, non-discriminatory basis. This means that, with few exceptions, German government purchasing entities are required to award contracts based on objective criteria which, at least in theory, neither directly nor indirectly favor domestic German companies over foreign suppliers.

Technology transfer does not seem to be obstructed by official impediments or other barriers. German patent laws have to be observed. In order to be able to benefit from German research grants however, it is advisable for a U.S. company to establish a presence in the country.

Teaming with Local Firms

Although there are no requirements for foreign firms to team with domestic companies in order to obtain contracts, high development costs have caused many European countries, including Germany, to search for combined efforts in attempts to meet military requirements. In Germany, possibilities of such a cooperative endeavor are investigated at the earliest stages of a program. Discussions with other countries that may have similar demands begin as soon as a requirement has been defined.

U.S. Government Points of Contact

Listed below are helpful points of contact for U.S. firms interested in the German market. The Office of Defense Cooperation (ODC) provides assistance in defining defense requirements for Germany, and promoting the purchase of U.S. defense products. The ODC also monitors joint efforts between the U.S. and the F.R.G.

U.S. Embassy

U.S. Embassy in Germany
Deichmanns Aue 29
53179 Bonn 2, Germany
Tel.: [49][228] 339-1
Fax: [49][228] 339-2663

Chief, Office of Defense Cooperation (ODC)
American Embassy
Box 340
APO New York 09080
Tel.: [49][228] 339-2713/2715/2716
Fax: [49][228] 334-505

Foreign Commercial Service (FCS)
Tel.: [49][228] 339 2895
Fax: [49][228] 334 649

Research and Development A
Liaison Group - Army
Tel.: [49][228] 339 2749

Research and Development B
Liaison Office - Air Force
Tel.: [49][228] 339 2768

U.S. Chamber of Commerce

U.S. Chamber of Commerce
Rossmarkt 12
60311 Frankfurt, Germany
Tel.: [49] [69] 283 401

GREECE

GREECE

Overview

Unlike other European countries, Greece now spends over 6 percent of its GNP on purchases of military equipment. Although the GOG had decided to reduce defense spending in 1996, the recent dispute over the Island of Imia, which brought Greece and Turkey close to armed conflict, led to a decision to implement a plan for a more "sophisticated" defense spending program. This program calls for the purchase of a wide range of defense items, including telecommunications equipment, electronics, missiles, aircraft, helicopters, and spare parts.

Defense Industry Environment

According to the 1997 Government budget, the Ministry of Defense (MOD) is allocated \$3.3 billion or 6% of total budget expenditures. Since most of these funds will be utilized to drawn down existing debt, the MOD plans to purchase equipment mainly through borrowing. The additional funds for the \$16 billion, five-year defense build up, announced last year have not appeared and will not likely be seen until 1999 at the earliest. In addition, Greece has received U.S. foreign military loan credits in the amount of US \$229 million in both FY 1995 and FY 1996. Market analysts insist that defense firms marketing to MOD should include in their package very favorable financing terms, including advantageous rates and deferred interest.

Domestic Industry

The Greek defense industry consists of both state-controlled and private entities. State controlled firms include EBO, Pyrkal, Elbo, and HAI. Oversight of these companies is carried out by the Ministry of Defense and the Ministry of Industry, Research and Technology. They control such functions as management, employment policy, production priority, investments, research development, and quality control. These companies may also act as private entities to engage in commercial projects.

State Controlled Firms

EBO (Hellenic Arms Industry) - employs about 1200 personnel and produces weapons systems, medium caliber ammunition, and portable equipment. Annual sales are approx. US \$20 million.

Pyrkal (Greek Powder & Cartridge Co) - employs about 1500 and produces small and medium caliber ammunition, projectiles, and shotgun cartridges. Annual sales are approx. US \$22 million.

Elbo (Hellenic Vehicle Industry) - employs about 900 and produces armored vehicles, assembles 1/4 ton tactical vehicles, and non-military vehicles including buses and trucks. Annual sales are approx. US \$64 million.

HAI (Hellenic Aerospace Industry) - employs about 3,000 and performs a wide range of work including maintenance and repair of aircraft airframes, engines, avionics, and air-to-air missiles; manufactures Stinger missiles (as part of the European consortium), laser range-finders, night vision devices, fire direction computers, and radios. Annual sales are approx. US \$92 million.

Private Firms

Over seventy small to medium-size companies belong to the Association of Greek Manufacturers of Defense Equipment, known as SEKPY. These private firms cooperate with the Ministry of Defense and compete for government tenders. They also participate in international tenders, either as prime or subcontractors and can enter into their own contracts and agreements without Government oversight. A pamphlet published by SEKPY gives information on the products, services, and capabilities of SKEPY members. Contact SEKPY at:

- SEKPY
10 Messogion Avenue
Gr-115 27 Athens, Greece
Tel: 30/1/770-2439

Defense Opportunities

The Greek Armed Forces have released a very long list of equipment that will be purchased within the next five years and is briefly described below.

Army

- New radio transmitters to modernize communications
- The purchase of 250 new tanks. General Dynamics' M1A2 and Krauss Mafei Leopard are strong contenders for this purchase
- Ordnance ammunition, SHORAD and purchase of MLRS
- Purchase of four Apache and seven Chinook Helicopters
- Purchase of six M577 Track vehicles
- Purchase of 80 M901A1 TOW vehicles
- MLRS Battalion (Second Battalion)
- HAWK Missile upgrade
- ATACMS (41 requested, plus additional 30)
- Unmanned aerial vehicles
- NBC protective clothing
- Kevlar helmets and jackets

- 3/4 & 1.5Ton vehicles
- Night vision sights for TOW2 missiles
- Modernization M48A5 and M60 tanks
- Fire control and stabilization systems
- 155mm SP howitzers
- 155mm Howitzer and 105 tank ammunition
- Ammunition carrier vehicles
- Mines and mine dispensation equipment
- Portable anti-tank weapons
- Telecommunications equipment
- Combat simulators
- Tank shield reenforcement systems
- 120mm mortars
- HAWK missiles
- SHORAD
- Stinger launchers
- 5.56mm x 45mm rifles

Navy

- Purchase of two new submarines
- Upgrade of Glafkos-type submarines and purchase of new submarine batteries.
- Purchase two Landing Craft Air Cushioned (LCAC) Hovercraft. Textron is the manufacturer, however, increasing competition from Russia to sell their LCAC, the Zubr
- Purchase two MEKO 200 Frigates, to be built in Greece with U.S. Harpoons and CIWS (Close in Weapon System)
- Harpoon Missiles (24 total buy including a recent request for six additional missiles)
- Helicopters
- Land-to-ship and ship-to-ship missiles
- Upgrade of telecommunications in all "Dutch made" frigates
- Delivery of three frigates (MEKO 200HN) with all equipment, guns, and electronics (only the hulls are made in the Greek shipyard of Skaramangas under German license)
- Replacement of Orion P3 aircraft
- Anti-aircraft protection systems for most Naval vessels
- Modernization of maritime patrol aircraft
- Follow-on support to Adams-Knox class ships, including upgrade of the M13 guided missile launch system
- MK46 torpedoes
- Anti-submarine warfare training targets
- Lease of large tug boats
- Fleet oilers
- Lease of 10,000 ton floating dry dock

Air Force

- The modernization/upgrade of the F-4E Aircraft (Structure and Avionics);
- The purchase of a New Generation Fighter Aircraft. The F-16 and the Mirage 2000 are considered short listed, and the F-15 may be a candidate as well.
- An Airborne Early Warning and Control System using either C-130, P-3, or E-2 aircraft as a platform.
- Parts and calibration support for P-3 aircraft.
- Ground Air Defense System such as the Patriot
- New Trainer Aircraft to replace ageing T-2 and T-37 aircraft.
- Aircraft missiles (range between 17-150 km)
- Purchase of AIM 9M missiles
- Air-to-ship missiles
- Air-to-air refueling tankers
- Spares and support for C-130B aircraft
- Replacement for NIKE missile
- Search and Rescue helicopters
- 4F-4G Wild Weasel aircraft
- NBC Equipment
- TPS-6 or TPS 70
- A-7E ECM
- ALQ-131
- Command and Control Systems

Competition for many of these contracts will be intense. Industry sources report that the French Government has already implemented a strong promotion strategy for the Mirage and the French candidate for the Army's tank competition. The German Government is strongly supporting DASA within the projected F-4 Phantom upgrade competition while German shipyards reportedly have a virtual lock on the two new submarine contracts. However, U.S. fire control and Harpoon missile systems will be bought for the submarines.

Russia has also established a program to increase defense sales in Greece. A recent Russian delegation to Greece on defense matters included a Deputy Minister who signed an initial Protocol for joint Russian-Greek armament production. Analysts believe that this will give Russia additional leverage to promote the SU-27, its Tor SHORAD system, the S-300 missile and its Armored Transport Upgrade Program.

Defense Procurement Process

Greek Defense Procurement is based on Law 785/78, as amended and supplemented by 284/89 Presidential decree. General and specific terms are published by the Ministry of Defense

(MOD) Procurement Office for each military service. Responsibility for procurement planning and implementation is as follows:

Weapons systems and major equipment - The three military Services, Hellenic Army General Staff (HAGS), Hellenic Air Force General Staff (HAFGS), Hellenic Navy General Staff (HNGS), submit their requirements to the MOD who then prioritize the procurement. The General Armaments Directorate (GAD) is then responsible for procurement of those items.

Spare parts and components - These items are procured by the procurement offices of the three military Services, in cooperation with the GAD.

Ammunition and vehicles - Military Services requirements for items manufactured in Greece are passed to the GAD which then places the requirement with the appropriate defense firm (i.e., Pyrkal, EBO, or ELBO). Products not available through the state-controlled firms are procured by each Service procurement office using international tenders.

Foreign Sourcing

Greek defense procurement is designed to promote domestic acquisition. Equipment and materials not available domestically are purchased through international tenders, the bulk of which is purchased using foreign military financing. Tendering and offset requirements favor foreign companies which propose projects involving some in-country co-production or cooperation with a Greek defense company.

The GOG supports exports by its defense companies, often to countries outside of NATO in Africa and the Middle East. U.S. Government restrictions on third party sales/transfers are also taken into consideration by the GOG during the tender evaluation process.

The GOG encourages foreign companies who wish to establish domestic operations to locate their facilities outside of major metropolitan areas in order to spread the economic benefit throughout the country. The Government also uses offsets and counter trade in tenders in order to generate foreign investments and to increase exports. In addition, through offsets, the GOG is interested in developing its non-military manufacturing capability.

A foreign contractor may normally select subcontractors. However, a wide range of small business firms in Greece offer subcontracting opportunities. The DID or SEKPY have the most current information and should be contacted to identify potential subcontractors

GOG Offset Policy

On the basis of Presidential decree 284/89, the MOD has established a policy that requires prospective suppliers of defense material to include in their proposal an offset offer.

Offsets are required when the total price of material to be purchased exceeds 150,000,000 Drachmas (approx. US \$60,000).

The offset offer should include an industrial compensation program that can be implemented in case the supplier is awarded the contract. Eligible transactions within such programs include transfer of technical information to Greek firms, training and/or technical support, purchase of industrial products and/or services from Greek firms, direct investments and grants of fixed assets to state-controlled defense firms, grants of material/services to Hellenic Armed Forces, and assignment of subcontracting work to a Greek firm.

These transactions may fall in three groups:

Group 1 - transactions related directly to the purchased defense material.

Group 2 - transactions related to the Hellenic defense industry in general, except those falling into Group 1,

Group 3 - transactions related to Greek industrial products and services not falling under Groups 1 or 2.

The offset benefit percentage of a Group 3 transaction should be as high as possible and in any case not less than 60 percent of the purchase price, whereas the respective percentage in Groups 1 and 2 should be at least 50 percent of the purchase price. The whole offset benefit program must be implemented within a pre-specified period.

In case there is a shortfall in the offset benefit obligations after the expiration of the specified time frame, the supplier is liable for the payment of liquidated damages equal to 10 percent of this shortfall. For this reason, the supplier must submit to the Ministry of Defense/Offsets Directorate (MOD/OD) an irrevocable bank guarantee covering 100 percent of the liquidated damages. This amount will be reduced progressively on the basis of the supplier's offset benefit performance. The award of credit for all implemented transactions follows a pre-specified crediting procedure.

Further information on Greek offsets policy and requirements can be requested from the MOD/OD.

Defense Procurement Contacts

Ministry of Defense (MOD)

- General Armaments Directorate (Procurement, Foreign Relations, and Offsets)
Gr-156 69 Goudi, Athens, Greece
Tel: 30/1/777-8308

Fax: 30/1/775-0986

- Hellenic Army General Staff
 - Planning and Programming Directorate
Holargos, Athens, Greece
Tel: 30/1/646-7184
 - Procurement Directorate
1 Petrou Ralli Street
Rouf, Athens, Greece
Tel: 30/1/345-9860
Telex: 214445
- Hellenic Air Force General Staff
 - Defense Planning Directorate (D2)
Holargos, Athens, Greece
Tel: 30/1/646-4237
 - C' Branch
Office of Procurement
Holargos, Athens, Greece
Tel: 30/1/324-4239
Telex: 21509 AFGS Gr
- Hellenic Navy General Staff
 - Planning and Policy Directorate (GL)
Holargos, Athens, Greece
Tel: 30/1/652-0628
 - Office of Supreme Procurement Committee
2 Paparigopoulou Street
Gr-105 61 Athens, Greece
Tel: 30/1/323-4463
Telex: 215835

In the U.S., the point-of-contact for the Hellenic Armed Forces is:

Embassy of Greece
Defense and Military Attache
2228 Massachusetts Avenue, N.W.,

Washington, D.C. 20008
Tel: (202) 234-0561 or 5695

Diversification/Commercial Opportunities

Opportunities for non-military sales to the GOG include:

- Vessel traffic management and control system for the Coast Guard.
- Launch of a satellite known as HELLAS SAT.
- Airport surveillance radars for the civil aviation authority.

The service sector in Greece, which accounts for about 66 percent of GDP, is the largest and fastest growing sector of the Greek economy. Tourism is booming, and shipping retains its traditional and strong role as a foreign exchange earner. Of note are the opportunities in infrastructure projects to be undertaken in the 1995-98 period, with financing of US \$20 billion from the EU. Priority development sectors identified by the GOG include: transportation; telecommunications; computerization of Greek Government operations; tourism; public health; energy; irrigation; and environmental protection.

The proximity to the Balkans and the traditional trade ties of Greek businessmen with these neighboring countries, as well as to the Central and Eastern European countries, may offer different types of opportunities. U.S. firms may wish to target these markets from a base in Greece or to explore triangular arrangements with Greek companies. In this regard, it is worthwhile to note that: (1) Greek exports to the Balkans increased by about 60 percent in 1994; (2) Greek investment in Bulgaria is 77 percent of the total foreign investment in that country; (3) there are an estimated 800 Greek-Romanian joint ventures; and (4) Greek investment in Albania is the second largest after Italy.

Greece is a full member of the EU and has adjusted its trade laws to conform to EU requirements.

Computers and Peripherals

Imports supply over 80 percent of the computer and peripheral market. Over 50% of the market is dominated by U.S. suppliers. One of the most promising segments of the market is the public sector, which has embarked on large purchases of computer equipment and software financed by the EU. It is expected that over \$2 billion will be spent in Greece for information technology projects during 1996-2000.

To speed-up the modernization of the public sector, the Greek government provides up to fifty percent prepayment to all state organizations and agencies that wish to proceed immediately with the implementation of their information system projects.

The Ministry of Finance, Greek Social Security System, and the Ministry of Education have already purchased over \$200 million. These purchases include computer hardware, software networks, tailor-made design sub-programs, and development of training and technical support teams. A number of similar projects in several other ministries and government agencies are expected to be announced shortly.

Main competitors to American companies are European companies including: Olivetti (Italy), Philips (Netherlands), Bull (France), and Siemens-Nixdorf (Germany). Two Greek assembly companies, Altec and Quest, cover a significant portion of the market.

Medical Equipment

Imports supply approximately 90 percent of the Greek market for medical equipment and supplies. Main suppliers are from Germany (23%); U.S. (15.6%); Italy (14%); and the Netherlands (7.8%). Imports in 1995 were \$390.0 million and are expected to increase to \$406.6 million in 1996 with a real growth rate of 8-10% annually over the next three years.

Local production of medical equipment is limited. Several small to medium-sized manufacturers supply hospitals with furniture, inexpensive manual wheelchairs, bandages, gauze, and other rudimentary hospital supplies. Only one dynamic Greek company manufactures high-technology medical equipment such as artificial kidney equipment and hemodialysis equipment.

Despite the current uncertainties regarding the Greek economy, it is anticipated that the total market for medical equipment and supplies will grow over the next three years, at a real rate of 10 percent per annum. This projection is based on an ambitious program announced by the Ministry of Health for the establishment of new hospitals, and on the need for modernizing most existing facilities.

There is an increasingly strong demand for advanced and sophisticated medical equipment, for which U.S. manufacturers enjoy an excellent reputation. As a result, imports from the U.S. have increased from \$11 million in 1989 to \$53.9 million in 1995. There are no non-tariff barriers on the import of medical equipment and supplies from the U.S.

Most promising subsectors are in surgical appliances and supplies, surgical/medical instruments, and electro-medical equipment.

Telecommunication Services

Under a special exemption, the deregulation of the telecommunications market mandated by the EU, will not take effect in Greece until 2003. However, value-added services will be liberalized in 1997, but the state-owned Hellenic Telecommunications Organization (OTE), which has the telecommunications monopoly, except cellular telephony, will have the right of first refusal in the provision of all new services.

To meet the expected competition from private suppliers, OTE is aggressively pursuing a multi-million dollar modernization of its telecommunications network, including entry into the value-added services such as data communication, paging, cable TV, satellite communications and Internet services. The Greek cellular telephony market, deregulated in 1992, is growing rapidly. The two private cellular telephony providers have close to 150,000 subscribers, each. The licences granted to the two operators, gives them a monopoly on GSM cellular telephony until 1988. Despite the legal problems that may arise, OTE has announced the intention to proceed in the introduction of the DCS 1800 system, and has issued an invitation for a qualified operator who will provide the know-how and will have a 25 percent share in the joint-venture.

Following is a list of services with excellent market potential:

Leased circuits for the transmission of data, voice, and video, security systems links and other applications in the banking, insurance, and services sector.

VSATs (very small aperture terminals) which are used primarily for remote areas communications via satellite. Hotels, plants, multi-national or national company outlets are the best customers for VSAT services. Some of the services are:

- Transportable TV signal transmission stations
- Fast public switched data networks
- ISDN high-speed digital networks
- Paging system compatible with HERMES pan European paging system
- Videotext for graphic display applications and video conference applications
- Marine communications via satellite
- New cellular telephony applications in GSM environment

Although OTE offers some of the above services, it does not promote them sufficiently. As soon as the deregulation is put in effect, value-added services will be one of the most promising sectors.

Aircraft & Parts

U.S. import-export statistics of aircraft and parts include civilian and military sales, while equivalent Greek statistics include civilian sales only. No statistics are available on Greece's

small local production. According to U.S. statistics, U.S. sales of aircraft and parts to Greece increased from \$77 million in 1994, to \$564 million in 1995. This is largely due to the delivery of helicopters by the military and law enforcement agencies.

The deregulation of Greece's civil aviation in 1993 opened the way for the creation of new private airlines. To date, the liberalization has brought a limited opening to the market for aircraft. As these airlines do not have the financial capacity to purchase, they resort to leasing.

In addition, the EU-mandated liberalization of air transportation scheduled to take effect in 1998, has spurred the government to restructure Olympic Airlines, the country's national carrier. According to the plans, during the period 1997-2003 Olympic Airlines, Greece's prime purchaser of non-military equipment, will gradually withdraw aging aircraft and take delivery of new ones. The cost of the new acquisition program is estimated to be close to be \$1.3 billion, nearly half of which will have to be obtained from the local and international money markets. Aircraft under consideration include the Boeing 737, and 767 and the Airbus A-340. Olympic needs eighteen to twenty 737s, and 4-5 large aircraft. The type and number will depend on whether Olympic will maintain or withdraw its Boeing 747s. Currently, Olympic spends \$10-15 million a year in maintaining spare parts inventory. However, the prospect that Olympic Airlines will have to relocate to the new Sparta airport when it is completed will create additional opportunities for sales to Olympic Airlines. This move has been estimated to cost \$200 million.

Other non-military market segments where purchases of aircraft and parts are expected to show increases are: firefighting, law enforcement, private and executive travel, news coverage and emergency patient transportation.

Environmental Services

The Greek market for environmental protection systems and equipment will have excellent growth potential over the next several years. The heavy concentration of the population in big cities, the lack of a program for basic protection of the environment and the non-existence of solid waste-disposal systems, create major opportunities for waste management systems and recycling equipment. Almost the same demand exists for water treatment systems.

Despite the drastic increase in environmental pollutants, Greece has not been able to make any expenditures for environmental protection. In response to this, the EU earmarked in 1995 over \$350 million to be spent on waste management and environmental protection projects during the next five years.

Priority has been given to water treatment facilities, recycling and landfills. The following public utilities/ministries are the typical end-users of waste-water and solid waste treatment facilities:

- Major cities and municipalities

- Ministry of Interior
- Ministry of Merchant Marine
- Major Hospitals
- Public Power Corporation (PPC)
- Greek Atomic Energy Institute "Demokritos"

There is an increasing demand in the private sector for waste management systems and equipment, mainly in the following industry sectors:

- Food Processing
- Chemicals
- Plastics
- Paper processing
- Textiles
- Tanneries
- Pharmaceuticals
- Cement

Ministry of Merchant Marine and Port Police Projects

Over US \$100 million will be spent during the next five years for the modernization of the Ministry of Merchant Marine and the Coast Guard. The following projects may be of interest to U.S. companies:

- Purchase of patrol/rescue boats and helicopters (US \$28 million).
- Hardware and software networks that can satisfy all of the needs of the Port of Piraeus, the busiest port in Greece. These needs include traffic control with radars, monitoring of cargo warehouses, and providing shipping services and administration for the Piraeus Port Authority (US \$11 million).
- Installation of a large number of information systems in various other ports and the upgrade of the Ministry's system, in addition to the purchase of 25 vehicles.
- The Ministry of Merchant Marine has received approval for a pilot research project to track schools of fish in the Aegean Sea utilizing satellite technology. This project is funded under the EPEST II program of the EU. If it proves successful, it may be implemented by other European countries.

Greek Port Police contacts include:

- Rear Admiral Heracles Ousatzopoulos

Chief of the Greek Port Police
Piraeus Port Authority
2 Defteras Merarchias St.
Gr-185 35 Piraeus, Greece
Tel.: 30/1/452-0910/19
Telex: 212187 olp gr
Fax: 30/1/452-0852

- Lt.SG A. Stylianopoulos
Piraeus Port Authority (OLP)
1 K. Paleologou Street
Gr-185 35 Piraeus, Greece

Greek Telecommunications Satellite

The demand for a Greek telecommunications satellite comes from both the public and private sectors. The launching by Turkey of two Aerospatiale satellites (Turk Sat-1 and Turk Sat-2) spurred the Greek Ministry of Defense to consider a similar satellite for Greece. However, due to its high cost, a purchase decision has been delayed. The two GOG-controlled TV and radio broadcasting networks (ERT 1 and 2) have a strong interest in transmitting and receiving TV programs to and from Europe and the U.S. via satellite. The private TV station "Antenna", is already transmitting its programs to Australia, certain cities in the U.S., and Cyprus. It plans to include TV transmission to additional regions in the U.S. via Panamsat or another carrier that has a cable distribution network.

Another demanding private sector client for satellite communications is the shipping industry which feels strongly that modern telecommunications is an important tool contributing to its successful operation. The GOG built a modern telecommunication park at the Port of Piraeus where the Hellenic Telecommunications Organization (OTE) has installed a new digital network for the shipping industry. With an increasing need to communicate with its ships around the world, the shipping industry remains the number one customer for VSAT and other satellite services. Demand is also great in banking, in the state-controlled defense firms, and in the large private corporations.

GOG telecommunications and shipping industry points-of-contact are:

- Mr. Dimitris Ioannidis, Advisor
Ministry of Communications
13 Xenofontos Street
GR-105 57 Athens, Greece
Tel: 30/1/331-0506
- Mr. John Goumas, President of the Union

Mr. Nick Efthymiou, Member of the Board of Directors and Project Manager
Union of the Greek Shipowners
85 AKTI Miaouli Street
Gr-185 38 Piraeus, Greece
Tel: 30/1/429-1159
Fax: 30/1/429-1166.

Civilian Agency/Association Points-of-Contact

- Ministry of Commerce
20 Kaningos Street
Gr-101 81 Athens, Greece
Tel: 30/1/361-6240-54
Telex: 21 5282, 21-6735 dkg gr
Fax: 30/1/364-2642
- Ministry of Public Works
182 Char. Trikoupi Street
Gr-101 78 Athens, Greece
Tel.: 30/1/644-9113, 644-7324
Telex: 21 5018, 22 5259 yder gr
Fax: 30/1/642-6836
- Ministry of Transportation & Communications
13 Xenofontos Street
Gr-105 57 Athens, Greece
Tel.: 30/1/325-1211-9
Telex: 21 6369 YSYG Gr
Fax: 30/1/324-7400
- Ministry of Industry, Energy, & Technology
80 Michalakopoulou Street
Gr-101 92 Athens, Greece
Tel: 30/1/770-8615-19
Fax: 30/1/777-2485
- Civil Aviation Authority
1 Vassileos Georgiou Street
Gr-166 04 Hellenikon, Athens, Greece
Tel.: 30/1/894-4263
Telex: 214444 lgac gr
Fax: 30/1/894-7101

- Public Power Corporation (PPC)
30 Chalkokondyli St.
Gr-104 32 Athens, Greece
Tel.: 30/1/523-4301/523-0301
Telex: 216052 Dei Gr
Fax: 30/1/523-9845
- Public Petroleum Corp. (Dep-EKY)
357-359 Leoforos Messoghion
Gr-152 31 Halandri, Athens, Greece
Tel.: 30/1/650-1357
Telex: 210897 dep gr
Fax: 30/1/650-1383
- Public Petroleum Corp. (Dep, SA)
199 Kifissias Ave.
Gr-151 24 Amaroussion, Athens, Greece
Tel.: 30/1/806-9301/10
Telex: 2215-83
Fax: 30/1/806-9317
- Hellenic Telecommunications Organization (OTE)
Sub-Directorate of Supplies
OTE Building, 99 Kifissias Avenue
Gr-151 24 Amaroussion, Athens, Greece
Tel.: 30/1/123-1 or 01/611-8256
Telex: 215487 DLK Gr
Fax: 30/1/611-7456
- Greek Atomic Energy Commission
Nuclear Research Center "Democritos"
Aghia Paraskevi Attikis, Athens, Greece
Tel.: 30/1/651-3111/19, 651-8919, 651-9219
Telex: 216199
Fax: 30/1/651-9180
- Hellenic Railways Corporation (OSE)
1 Karolou Street
Gr-104 37 Athens, Greece
Tel.: 30/1/524-1510
Telex: 215187 ceha gr
Fax: 30/1/524-3290

- Piraeus Port Authority
2 Defteras Merarchias Street
Gr-185 35 Piraeus, Greece
Tel.: 30/1/452-0910/19
Telex: 212187 olp gr
Fax: 30/1/452-0852

- Thessaloniki Port Authority
Organisimos Limenos Thessalonikis (OLTH)
Purchasing Department
P.O. Box 10467
Gr-541 10 Thessaloniki, Greece
Tel: 30/31/593-217
Telex: 41-2536 thpa gr
Fax: 30/31/530-729

- Institute of Social Insurance (IKA)
Directorate of Supplies
8 Aghiou Constantinou Street
Gr-104 31 Athens, Greece
Tel.: 30/1/522-2148, 523-6060
Fax: 30/1/522-9180

- Agricultural Bank of Greece (ATE)
Supplies Service
23 Panepistimiou Street
Gr-102 21 Athens, Greece
Tel.: 30/1/323-0521/7 or 323-6253
Telex: 215810 Agrobank
Fax: 30/1/329-8713

- Hellenic Radio-Television (ERT-1)
432 Messogion Avenue
Gr-153 42 Agia Paraskevi, Athens
Greece
Tel: 30/1/639-5970
Telex: 222635
Fax: 30/1/639-6504

- Hellenic Radio-Television (ERT-2)
136 Messogion Avenue
Gr-156 69 Athens, Greece
Tel.: 30/1/770-1911

Telex: 210886, 214439

Fax: 30/1/779-1917

- Customs Authority
Director General of Customs
Ministry of Finance
10 Karageorgi Servias Street
Gr-101 84 Athens, Greece
Telex: (0601) 214001 YOIK Gr
Fax: 30/1/323-2240

Doing Business in Greece

American firms interested in developing a business relationship, such as finding a sub-contractor or entering into a cooperative venture, should contact the Office of Defense Cooperation, Greece (ODC-GR), Defense Cooperation in Armaments (DCA), Bilateral Affairs Division; and the Commercial Office at the American Embassy in Athens. These offices can provide specific information on the business environment in Greece and can identify or provide background information on potential local business partners. Firms interested in selling defense products to the Greek military should contact the Security Assistance Division of the Office of Defense Cooperation.

Procurement for infrastructure projects sponsored by the North Atlantic Treaty Organization (NATO) is open to international competitive bidding. U.S. firms not already certified to participate in NATO bidding should send a resume of their qualifications to the Office of Telecommunications (Strategic Systems/NATO), Room H-1001A, U.S. Department of Commerce, Washington, D.C. 20230.

In order to supplement the efforts of local agents of American firms in Greece and to inform those U.S. firms without agents in Greece, the Commercial Office at the American Embassy in Athens reports significant tender announcements to the U.S. Department of Commerce in Washington. The Department disseminates this information electronically through its economic bulletin board and through publication in leading commercial newspapers.

Commissions

The payment of commissions to agents for both commercial and military tenders is a legal and common practice. This commission may be paid as a fixed amount or on a percentage basis, depending on the agreement between the company making the bid and its agent. Furthermore, according to Greek law, the commission must always be paid in Greece and in Drachmas. It is up to the company quoting on tenders to the public sector to decide whether or not to show the commission as a separate expense or to include it in the overall bid price. As another alternative, a company could choose to pay the commission out of its real profits, thus

lowering its bid price. In some cases, military and possibly commercial tender documents may state that no commission may be paid to an agent. In cases such as these, it is still legal to pay commissions out of the company's profits on the sale.

No commission is payable on direct U.S. Government to Greek Government sales financed by FMS credits. Commissions are payable on commercial military sales (U.S. Company to GOG) financed by FMS credits. Such commissions are subject to approval by the Government.

If U.S. companies do not include the commission as an expense item when bidding on Greek tenders, this helps to eliminate a disadvantage of the U.S. bidders vs. European bidders during the evaluation process since it is not the European custom to include this information in their bids.

U.S. Government Points of Contact

American Embassy

- Office of Defense Cooperation
DCA/Bilateral Affairs Division or Security Assistant Division
U.S. Embassy
9 El. Venizelou Ave., 5th Floor
Gr-106 71 Athens, Greece
or
PSC 108, Box 42
APO AE 09842
Tel: DCA/Bilateral: 30/1/322-5732
Security Assistance Division: 30/1/323-9657
Fax: 30/1/321-4821
- Commercial Counselor
91 Vassilissis Sophias Blvd
Gr-101 60 Athens, Greece
or
PSC 108, Box 30
APO AE 09842
Tel: 30/1/721-2951, ext. 2302/2303
Fax: 30/1/721-8660

Names, addresses, and products of selected SEKPY members are as follows:

- Elfon S.A.

30 Ikarias Street
Gr-166 75, Glyfada
Athens, Greece
Tel: 30/1/962-8212, 962-8234
Fax: 30/1/962-8539
Contact: Mr. G. Chrysos and/or Mr. D. Kemos

Electronic and telecommunication equipment for ships (including submarines) and aircraft; develops production and quality control systems.

- Matren S.A.
30 Sina Street
Gr-106 80 Athens, Greece
Tel: 30/1/362-3153, 361-8120
Fax: 30/1/360-8128
Contact: Mr. Agglos and/or Mr. Nontas Triantafillou

Spare parts for tanks and ships; upgrading of tanks; ammunition.

- Mercury S.A.
8 Sekeri Street
GR-106 74 Athens, Greece
Tel: 30/1/363-4134
Fax: 30/1/364-5885
Contact: Mr. Spanakos

Spare parts for tanks.

- Milcom S.A.
338 Tatoiou Street
Gr-510 85 Kato Kifissia
Athens, Greece
Tel: 30/1/807-3245
Fax: 30/1/807-8697
Contact: Ms. Theodosiadou and/or Mr. Psilogiannis

Telecommunication equipment; amplifiers; protective shields for antennas.

- Siber S.A.
Factory: 21st Klm of Markopoulou Avenue
Gr-194 00 Koropi, Attiki, Greece
Tel: 30/1/664-6211
Contact: Mr. Karabelas and/or Mr. Pavlis

Electronic telecommunication equipment; automatic control systems.

- Biokat
6 Aristidou Street
Gr-105 59 Athens, Greece
Tel: 30/1/686-6700
Fax: 30/1/683-0454
Contact: Mr. J. Karantzakis

Metal constructions, alternators, mining machines.

An important non-SEKPY private firm is Econ S.A. which manufactures ammunition, amplifiers, electro-optical systems, night vision binoculars, and target and laser range finders.

- Econ Industries
32 Kifissias Avenue
Gr-151 25 Athens, Greece
Tel: 30/1/682-8601
Fax: 30/1/684-1524
Contact: Mr. Dimitrios Economides

HUNGARY

HUNGARY

Overview

With over \$13 billion in foreign investment since 1989, Hungary is Central and Eastern Europe's leader in attracting foreign capital. This amount is nearly double that invested in any other Central European country and over half of all Foreign Direct Investment (FDI) in Central and Eastern Europe and the CIS. Moreover, about half of all U.S. investment in the region has gone to Hungary, which has attracted \$5 billion in American capital. Over 400 U.S. firms are actively doing business in Hungary and the American Chamber of Commerce in Hungary is one of the largest in Europe. As a Central European base, Hungary's advantages are location and skilled labor. Budapest is two hours away from the Austrian border while labor costs in Hungary are one-seventh of that in Austria.

Sectors such as telecommunications, energy, transport and the environment continue to grow. Over the past six years, Hungary has also developed industry strengths in the automotive field (with major investments by GM, Ford, Audi, Suzuki) and with an expanding automotive sourcing industry in plastics and electronics. Other areas, including chemicals, food processing, construction, and especially services such as banking, tourism, franchising, and information management hold very attractive business prospects.

Hungary signed a standby agreement with the International Monetary Fund (IMF) in March 1996 and became a member of the Organization for Economic Cooperation and Development (OECD) in April 1996. 1995 GDP growth was about 1.5%, following 2.9% growth in 1994 (the first year of GDP growth since 1990). In 1996, growth was in the 1% range. However, 2%-2.5% GDP growth is expected for 1997. Despite government efforts, inflation continues to be troublesome. It was 28.3% in 1995 and is expected to be in the low-to-mid 20's in 1996.

Defense Industry Environment

In 1995, Hungary spent about 1.7 percent of its GDP on defense compared to 2.8 percent in 1989. This percentage (in 1995) represented 77 billion Hungarian forints (\$ 626 million). In 1996 the Ministry of Defense spent approximately HUF 79 billion, up 6.8% in nominal terms, from 1995; however, because of devaluation of the forint in March 1995, this represents a real decrease to USD 531 million. Within the defense budget, HUF 790m (USD 6.4 million) is earmarked for participation in NATO's Partnership for Peace program.

Five percent of this budget is available for new equipment acquisitions. Starting in 1997, 15-20 percent of the defense budget can be spent on research and development. Modernization of the army is planned to start not later than 1998 and is expected to be finished by 2005.

It is important to note, however, that in the case of major military procurements (such as air defense radars or aircraft) money is specifically appropriated outside the defense budget. Hungary's defense industry formerly specialized in electronic hardware for the Warsaw Pact countries. After the break up of the Warsaw Pact, the Hungarian defense industry lost its primary markets. Since 1989, defense trade between the former Warsaw Pact countries has fallen to almost zero. Within the shrinking defense budget environment, the Hungarian Home Defense Forces has not able to place enough orders to maintain pre-1989 production levels. Therefore, most of the companies that were involved in defense related production found themselves in a very difficult financial situation after 1990. Many companies went out of business; in some cases, a few branches of the original company are still in operation.

Today there are about 60 companies that are involved in defense related products and services. Nine companies are directly connected to the Ministry of Defense. These are mainly R&D companies and trading companies. The major defense firms are listed below:

Fuzfo Nitrochemical Works
Telecommunications Research Institute
Danubian Aircraft Company
Technika Foreign Trading Company
Mechanical Works
Automotive Industry Research and Development Institute
Miki Measurement Technology Development Company
Matravideki Metal Works
Feg Arms and Gas Appliances Factory
HM Arzenal Electromechanical Co.
HM ArmCom Communications Ltd.
HM Currus Combat Vehicle Technic Co.
HM Elektonic Directorate
HM Radar Radio Engineering Inc.

The Hungarian Government created a Defense Industry Office (DIO) within the Ministry of Industry and Trade to oversee the activities of the 60 companies in the defense sector. The DIO presented a program to the government to revitalize the defense industry. The plan evaluated the needs of all armed forces in Hungary (military, police, border guards, and civil defense forces) and examined how much of their needs can be filled by domestic production. In the past local contracts accounted for only 20 percent of total production; 80 percent of production was exported. This ratio has become more balanced as the domestic defense industry has downsized. The Government's reconstruction strategy will include solutions on how to better match domestic supply and demand, and how to make the Hungarian Defense Industry more competitive in foreign markets, mainly by ensuring that products are compatible with NATO equipment.

About 25 percent of the Hungarian Armed Forces' needs are satisfied by local producers. These products are mostly small arms, electronic parts, ammunition and clothing. Germany has supplied arms and spare parts to Hungary from the stocks of the former East German Army. Germany provided the equipment free of charge in recognition of Hungary's role in the fall of the Iron Curtain in 1989. In 1993, Hungary received 28 MIG-29 Fighters from Russia as half of the settlement of Russia's outstanding \$1.6 billion debt to Hungary. As further debt settlement of USD 150 million, Russia delivered 97 BTR-80 armored vehicles and 20 armor-piercing rocket launchers, engines for MIG-29 fighters and runway equipment. U.S. companies supplied the IFF systems for the upgrade program of the Air Defense Forces through the FMS program. In April 1996, MOD bought one hundred T-72 tanks from Belarus to replace outdated T-55 tanks. With the 100 new tanks, Hungary will temporarily exceed the limits stipulated by Mutual Balanced Force Reduction Treaty, thus Hungary has undertaken to destroy 100 T-55 tanks. No decision can be expected before the end of 1996 on the modernization of the remaining T-55 tanks.

Defense Opportunities

Regarding specific programs, air defense systems remain a high priority. The main focus of development will be upgrades in the following areas:

- avionics
- air traffic control (ATC)
- radar systems
- command and control
- short-range missiles
- communication and information systems

In addition to the list above, another priority area is the upgrade of tactical units and command and control, especially NATO compatible radios.

Hungary is a participant in the Regional Airspace Management Initiative Program proposed by President Clinton in 1994. The creation of an Air Sovereignty Operations Center (ASOC) will provide the Hungarian military with a modern, centralized command and control center for air sovereignty and air defense purposes. The U.S. funded program is being led by the USAF Electronic Systems Center, Hanscom AB, MA. The ASOC is programmed to be established first in Hungary in late 1996 or early 1997. The RAI Program is a high priority for the Hungarian Government and military in their effort to upgrade their air defense and air sovereignty systems. In order to support these modernization efforts, the Hungarian military is in the process of preparing a tender for two 3-D long range surveillance radar systems.

The GOH has available approximately USD 1.7 million from the Partnership for Peace Initiative for the purchase of new communication equipment for the Hungarian Home Defense.

The Ministry of Defense (MOD) intends to purchase HUF 30 billion (USD 100 million) worth of ground-to-air missiles and tracking systems through a long-term credit arrangement. The first round of the tender was declared unsuccessful as none of the seven bidders met all the requirements. MOD is continuing talks with four of the bidders including Hughes Aircraft. The procurement is urgent as the new equipment is planned to be put into operation in 1998-1999. The tender invitation for the new tracking system has been drafted but will not be published until the question of financing is settled. As stipulated by Parliament, financing must include at least a 2-3 year moratorium on payments, an 8-12 year payment schedule, and full consideration provided to offsets and industrial cooperation opportunities.

The same financing conditions would apply to the procurement of about 30 fighter aircraft to replace aging MIG-21, MIG-23 and SU-22. The Saab (JAS 39 Gripen), Dassault (Mirage), Lockheed Martin (F-16), and McDonnell-Douglas (F/A-18) have all submitted proposals. The Hungarian government has postponed the tender until the second part of 1997. The reason behind the delay is to wait for NATO's decision concerning Hungary's admission. If Hungary does not buy new planes, its three air-divisions will shrink to just one MIG 29 division by the year 2000. Lockheed Martin and McDonnell Douglas have offered very generous lease plans in coordination with the U.S. Air Force F-16, U.S. Navy F/A-18 and the Defense Security Assistance Agency. Both Lockheed and McDonnell Douglas have pledged approximately one billion dollars worth of industrial cooperation in conjunction with a new plane purchase agreement and some industrial cooperation in conjunction with a used plane lease.

Existing sub-contractors and companies wishing to do business in this area should contact both companies for opportunities.

At Lockheed please contact:

Mr. Douglas Miller, Program Director Hungary
POB 748 Fort Worth, TX 76101 Mail Zone 1611
Tel: (817) 777-7657

At McDonnell Douglas:

Mr. Thomas E. Williams, Vice President Communications and Special Events
Mail: 0011312 POB 516, St. Louis, MO 63166-0516
Tel: (314) 232-5229

There are also possible future defense opportunities in upgrading existing weaponry. This includes upgrades to existing equipment, technology transfer, joint ventures, and US purchases of Hungarian-manufactured products. One example is the replacement of the existing Russian-produced engines in Hungary's MIG-29 fleet. These engines have a very short life span, high maintenance costs, high replacement costs, and very high fuel consumption rates.

Defense Procurement Process

Defense procurement in Hungary is typically subject to a tendering process. Presently, normal commercial tendering procedures apply. A new law on government procurement specifying tendering and purchasing procedures for government contracts was passed in November 1995. Although the Ministry of Defense has a license to negotiate and buy directly, most of the procurement and tenders are conducted by the Tender Office of the Ministry of Defense.

Decisions on contract awards are made by the Minister of Defense with the consent of the Ministry of Industry and Trade, as well as the Ministry of Finance and approved by the Parliament. In addition, Parliament can authorize additional funds for defense purchases which cannot be covered from the MOD budget.

Diversification/Commercial Opportunities

Despite the painful adjustment from a command to free-market economy, many commercial opportunities exist for U.S. firms.

Privatization

The state privatized a major portion of the gas, electricity and telecommunication sectors in the latter part of 1995. Major privatization also took place in banking, pharmaceuticals and elsewhere. Hungary is the only country in the region to have privatized large parts of its telecommunications and energy sectors. By the end of 1996, 70-75% of GDP will be in private hands. In 1995 alone, the GOH earned \$4.5 billion in privatization proceeds.

The defense industry, however, is handled as a special group within this privatization program. In 1995, there were about 60 companies in the defense related industry. In most cases, the government retains partial ownership, with share holdings ranging from 25 percent to 50 percent plus one vote.

Listed below are government contacts related to privatization:

APVRT Hungarian Privatization and
State Holding Co.
Pozsonyi u. 56.
H-1133 Budapest
1399 Budapest, POB 708
Tel: 011-36-1-269 8600
Fax: 011-36-1-149 5745

Ministry of Industry and Trade
Defense Industry Department
Mr. Gyorgy Szatmary
Head of Department
Vigado u. 6.
H-1051 Budapest
P.O. Box 111, H-1880 Budapest
Tel: 011-36-1-266 8476 or 118 5044/ext 395
Fax: 011-36-1-118 5421

Several industry sectors have been identified by the Foreign Commercial Service as "best prospects" for U.S. industry and are briefly described below.

Aerospace

Hungary does not have an indigenous aircraft manufacturing capability. All civilian and military aircraft are imported. Although some Hungarian companies are involved in the development of avionics upgrades and electronic systems for aircraft, most of the installed systems are imported. The Hungarian Home Defense Forces (HHDF) presently have two Fighter Wings consisting of MIG-21, MIG-23, SU-22, and MIG-29 Aircraft. The MIG-21 and SU-22 Aircraft are approaching the end of their useful life within the next five years. A total of twenty-eight MIG-29 Aircraft were obtained from Russia in late 1993 as part of a government-to-government debt resettlement arrangement.

Hungary's transport fleet consists of eight AN-26 aircraft which were purchased in used condition. HHDF helicopters are MI-24, MI-17, MI-8, and MI-2 aircraft. All Hungarian military aircraft are of Soviet design and most will require replacement in the next ten years. Exceptions are the two Czech designed L-39 "Albatros" training aircraft.

The government has expressed a desire to obtain Western aircraft and systems in order to replace the aging MIG-21's and SU-22's and to increase NATO inter-operability. A decision on issuing a tender for aircraft procurement has been put off until the second half of 1997. Industrial offsets and long-term advantageous financing are key to Hungary's consideration of an aircraft purchase.

The availability of spare parts to maintain aircraft in operational condition is a major concern of the military. The HHDF has two major aircraft maintenance facilities: Kecskemet Aircraft Maintenance Facility (Kecskemet Airbase) which conducts intermediate maintenance of fixed-wing aircraft; and the Danubian Aircraft Maintenance Company which performs depot level overhauls on helicopters, MIG-21 and L-39 fixed-wing aircraft. At present, engine overhauls can only be performed in the former Soviet Union and must be paid for in hard currency.

The Hungarian military has expressed great interest in the upgrade of aircraft avionics Systems to NATO and Western compatibility standards. In 1992, the first FMS case among former Warsaw Pact countries was signed for the installation of U.S./NATO-compatible IFF Transponders and ground interrogation radars in the Hungarian Air Forces. This FMS sale was part of an overall Hungarian effort to improve the air defense capabilities of the military. Hungarian military airfields do not have Western technology precision approach and landing systems (except Taszar temporarily used by the IFOR troops), the non-precision NDB provides the only Western compatible approach system. The only civilian airfield with Western precision approach and landing systems is Ferihegy International Airport in Budapest.

The military is not able to generate a sufficient amount of contracts for Danubian Aircraft Maintenance Company. Therefore the company would like to extend its services to the civilian sector as well as to neighboring countries. Danubian Aircraft Company has some production capabilities as well. The company produces parts for the Gripen Aircraft (components to the tail section) manufactured by Saab of Sweden. Duna Aircraft is open to discussion with other possible joint venture partners on local production of parts.

Telecommunications

The Hungarian telecommunications sector went through major changes during the last two years. The Telecommunications Law, which came into force in July 1993, created the framework in which to initiate privatization and introduce competition.

The Hungarian Telecommunications Company (MATAV) is the owner of the National Digital Overlay Network. MATAV is the largest service provider with national monopoly rights for long distance and international services until the year 2002. The Ministry of Transport, Telecommunications and Water Management is considering the possibility of shortening MATAV's monopoly by one to two years. MATAV also is responsible for providing local services in 39 of Hungary's 54 rural telephone districts. Because of its size and importance, MATAV is in a position to influence decisions on national technical specifications and standards. In 1993, MATAV was "privatized," 30.2 percent of the company's shares were sold to a consortium consisting of Ameritech and Deutsche Telekom. In 1995 the same consortium increased its stake in MATAV to 67%.

Besides MATAV, a number of new companies will service local areas. Seven partly foreign-owned consortia received concession rights in 1994 for local telecommunications services in 14 rural telephone districts. Three of these local telephone operators include U.S. investors. Hungary has four sizable private networks, which are all under reconstruction (MAV Hungarian Railways, MOL Hungarian Oil Company, MVM Hungarian Electricity Company, State Flood and Waterways Management Service). These networks have only restricted telephone service rights but they might become competition to MATAV in a couple of years in the fields of data communications, leased lines and dedicated lines services. Besides these private networks, government agencies also maintain proprietary networks (Ministry of Interior,

Ministry of Defense), which are planned to be upgraded and extended. Antenna Hungaria, formerly called the Hungarian Broadcasting Company, is another emerging competitor to MATAV. Antenna Hungaria is the second largest telecommunications company, holding operation rights for certain specialized areas.

A number of private companies are active in the wireless field. Three mobile systems are in operation in Hungary. Joint ventures of U.S. West and MATAV operate a 450 MHZ analog (Westel 450) and a 900 MHZ digital GSM (Westel 900) mobile system. Hungary has two licenses for GSM Services, the second license is held by Pannon GSM, a Scandinavian consortium. Five companies received licenses in 1992 to build and operate VSAT Systems. Four of them (Hungaro Digitel, Sat-Net GTS Hungary and Banknet) have already set up their earth stations in Hungary and started building networks for banks and government offices.

In 1995, MATAV installed 330,000 new subscriber's lines (equivalent to 24 lines per 100 persons), 1,389 public coin phone booths and 1,054 public card phones, spending a total of \$400 million (HUF 64 billion) on investments. The target is to increase the penetration rate to 35-40 lines per 100 persons by the year 2000. In 1996, MATAV will install 300,000 new telephone lines. Under the terms of a 1993 concession contract, MATAV has promised to end waiting lists for telephone service by the end of 1996.

MATAV has made a priority of replacing analog lines with digital. Currently, 60% of its exchanges are digital. The Hungarian Digital Backbone Network was successfully constructed during 1992-1995. Within this project an optical fiber network of approx. 3,000 km. and a digital microwave network of approx. 1,800 km were deployed. Opportunities are emerging on the subscriber network field at MATAV as well as at the new local telephone operators. The development of these subscriber networks is expected to feed the demand for new transmission technologies.

The equipment market is completely liberalized. Procurement for the major projects are financed from international financial sources (IBRD, EBRD, IFC, etc.). These procurement require a tendering process. In other cases buyers are free to select vendors themselves. American equipment vendors have to compete with very aggressive European vendors for contracts. Major vendors present in the market are: Ericsson, Siemens, Alcatel, Northern Telecom, and AT&T.

Communication Equipment and Computers

A demand for integrated computer and telecom systems is emerging. A number of banks and governmental agencies are in the process of installing IT systems. These projects require not only hardware, but systems integration as well. A yearly growth rate of 10% is predicted for the IT market during 1995-1999. With the stabilization of the economy, postponed IT procurements will be conducted. The stagnation of PC sales in 1995 (about 120,000 pieces sold) was due to the 9% devaluation of the Forint in March, 1995, and the introduction of the 8%

import surcharge, both part of the austerity package. The import surcharge will be phased out by June, 1997. The Hungarian ALBACOMP assembles 17-18,000 PCS a year. With this figure it leads the list of the PC suppliers with a market share of about 14% followed by Compaq, IBM and DEC. Dynamic growth sectors are:

- systems and servers
- workstations
- active networking elements (routers, bridges, modems)
- professional services

Market opportunities are especially good in the banking field where USD 100 million IT procurements are expected within 2 years. Further major market sectors are: government, education, telecom and industry.

Environment

Environmental issues are becoming more and more of a concern in Hungary. Environment related programs are progressing slowly due to the lack of funding. One of the most important environmental programs is the clean-up of the former Soviet military bases. The rehabilitation program covers 171 bases, 340 localities and about 6,000 buildings and also the soil belonging to and neighboring these bases. To date, the clean-up of only 12 bases has been completed which provides ample opportunities for U.S. firms in this area.

A portion of the clean-up is sponsored by the government. Local governments and private enterprises are also seeking ways to exploit the former bases. Without adequate resources for clean-up, the projects are going forward very slowly and in most cases are focusing on pollution containment only.

Safety and Security Equipment

One manifestation of the economic changes has been increased crime. Governmental statistics indicate that about 80 percent of crime in Hungary is directed towards property (car theft, residential, burglaries, shoplifting, vandalism etc.). There are an estimated 1,200 businesses and individuals engaged in the safety and security market (manufacturers, importers, installation). Approximately 85 percent of the domestic market is supplied by imports. The largest foreign suppliers are: 1) Germany 2) U.S.A., 3) Austria, 4) Italy, 5) Israel.

The government is the prime purchaser of safety and security equipment. While many agencies of the government are suffering from budgetary constraints, there are numerous planned procurement over the next few years. The objective is to increase the protective services offered by the government agencies, such as the police, the fire brigades, the border guards, and other armed forces.

Transportation/Health Care

Procurement in the sectors of transportation and Health care is decentralized. Major Hungarian vehicle producers are Ikarus (buses) and Raba (trucks). General Motors and Suzuki have assembly plants and Ford, Loranger, Audi and ITT have parts manufacturing facilities in Hungary. Other companies playing major roles in the Hungarian market are Volkswagen, Lada, Fiat and Toyota.

There is a great need for health care/hospital technology in Hungary. The equipment currently in use is outdated and requires continual maintenance. However, the lack of funds postpones almost all the projects in this area. There is some small scale interest arising from private clinics, the number of which is increasing.

The following is a list of contacts for the commercial product areas described above.

Ministry of Transport, Communications and Water Management
International Department
Mr. Andras Hardy, Director General
Dob utca 75-81
1077 Budapest
Tel: 011-36-1-351 7522
Fax: 011-36-1-322 3480

Ministry of Industry and Trade
Mr. Erik Szarvas, U.S. Desk Officer
Hoved u. 13-15.
1880 Budapest V.
Tel: 011-36-1-112 2842, or 331 4149
Fax: 011-36-1-332 9750

Ministry of Environment and Regional Policy
Ms. Eszter Szovenyi, U.S. Desk Officer
Fo utca 44-50
1011 Budapest
Tel: 011-36-1-201-2846
Fax: 011-36-1-201-4133

Please note that in the telecommunications field the market is decentralized, the Ministry of Transport, Communications and Water Management is only responsible for regulatory issues. Companies operating in the telecommunications field make their own decisions regarding procurement. The same rule applies for the security equipment and the health care equipment fields.

Doing Business in Hungary

Western business standards apply in Hungary. The largest drawback may be the language barrier. English is becoming more and more commonly spoken in the business community; however in defense circles only a few people speak English. MOD usually provides its own interpreters for the meetings; for meetings with other agencies and companies it is advisable to take an interpreter. Correspondence can be in English. However, in most cases, tender offers must be submitted in Hungarian. It is also advisable to translate product documentation into Hungarian.

Trade Regulations

Imports are subject to customs duty and the rate depends on the type of the product. The Custom Authorities release the product only after customs duty, 1% of statistical fee and 15% of handling fee was paid. Hungary has a value added tax (VAT) system. The VAT is 25 percent for almost all goods, except pharmaceuticals and some basic foodstuffs.

Exports, imports, transit and trading of defense related products are controlled by the Export Control Office of the Ministry of Industry and Trade. There are about 60 companies that have licenses to conduct business in this area. The Ministry of Defense and the Home Defense Forces and the Ministry of Interior have their own licenses for imports; therefore, they can negotiate directly with foreign suppliers. The U.S. Embassy advises that U.S. companies check if the Hungarian company has a license before they enter into any serious negotiations. For further information contact:

Ministry of Industry and Trade
Export Control Office
Col. Jozsef Bode, Director General
Vigado U. 6
1051 Budapest

Tel: (36-1) 118-0655
Fax: (36-1) 118-3742

Almost all the products that are to be sold in Hungary must go through a type approval or certification process. The type approvals/certificates are provided by the Research Institutes of the relevant industry, or by the Quality Control Institute (KERMI). Hungary does not accept certificates of foreign countries, testing by the relevant Hungarian institution is necessary for the certificate.

U.S. Government Points of Contact

The following is a list of useful contacts for U.S. firms interested in the Hungarian market.

U.S. Embassy

Foreign Commercial Service
John J. Fogarasi
Commercial Attaché
Szabadsag ter 7.
Bank Center, Granite Tower
H-1054 Budapest
Tel: (36-1) 302 6100
Fax: (36-1) 302 0089

Col. Arpad Szurgyi, Defense/Army Attache
Col. Jon L. Martinson, Air Attache
U.S. Embassy,
Szabadsag ter 12.
Tel: (36 1) 267 4400
Fax: (36 1) 269 9326

LTC Michael J. Strang,
Chief of Office Of Defense Cooperation
U.S. Embassy,
Szabadsag ter. 12.
Tel: (36 1) 267 4400
Fax: (36 1) 269 9338

Trade Association

Peter Fath, Executive Director
American Chamber of Commerce
Deak F. u. 10.
H-1052 Budapest
Tel/Fax: (36 1) 266 9888

ITALY

ITALY

Overview

Italy's economy performed well in 1995, with 3.0 percent growth, the highest since 1988 and tops among the G-7 countries. Strong exports, helped by the weak lira, were key to this performance. Growth in domestic demand, mostly in export-related investment, also contributed strongly to growth. Consumption, however, has been weak over the last several years, and remained so in early 1996. Declining exports due to the strengthening of the lira and the slowdown in growth in major trading partners led to a deceleration of growth in 1996. Growth was not expected to surpass 1.6 percent in 1996, although most forecasts expect it to rebound to 2.0 percent in 1997.

Despite taking charge in less than favorable economic circumstances, the new government led by Romano Prodi will continue policies of budget austerity. Prodi has passed a supplemental 1996 budget which is expected to allow reduction of the debt to GDP ratio and bring 1996 public finances back in line with government targets. The government has also produced a medium-term budget program putting Italy on a path to the 3% Maastricht treaty deficit/GDP target by 1998. Prodi has also committed to continuing the process of privatization begun in 1992, with plans to put the major telecommunications, energy and electricity monopolies on the market in 1996/97.

Defense Industry Environment

The Italian defense budget for 1996 is approximately US \$20.4 billion, which represents approximately 1.7 percent of GDP. Of this budget, approximately US \$15.4 billion is earmarked for national defense and US \$5 billion is for domestic security. Within the national defense budget, US \$3.36 billion is appropriated for goods and services such as: weapons (e.g., armaments and ammunition); quartermaster supplies; motorized vehicles, fuels, infrastructure and engineering works, health, and various miscellaneous items and US \$2.63 billion is appropriated for modernization, including procurement and research and development.

The supplemental budget that was presented to Parliament in June 1996 cut defense spending by less than one percent, with all cuts occurring in the goods and services sector. The government will try to reallocate any operational savings to technological modernization.

Investment in modernization reached an all-time low in FY 1994, causing important international projects to slip. To optimize resources, the government is concentrating on a few high-priority projects:

- Substituting the new Eurofighter aircraft for F-104s
- Building the Frigate "Horizon" with France and the U.K. (early 2000s)

- Procuring 200 Ariete tanks and developing the Ariete 2
- U-212 New Generation Submarines
- FSAF anti-missile defense system, with French participation, for the Army and Navy
- Future Large Aircraft transport
- EH-101 and NH-90 Helicopters
- Mid-range missile defense system
- Sicral/Post Sicral Satellite Communication; and Helios and Horus satellite observation projects

These projects will require an average annual investment of approximately US \$4.6 billion from 1996 to 2010.

The Italian defense industry is largely government-owned, but is moving toward privatization. Such traditional government entities as Alenia and Oto Melara are being consolidated under the corporate management of agencies such as Finmeccanica. Efforts are being undertaken to streamline both management and workforce structures, increase manufacturing efficiency, and improve general perceptions of product quality and capabilities. Industrial and defense general staff strategies are to decrease dependence on the products of other nations for major weapon systems production and to improve in-house capabilities whenever and wherever possible. Emphasis is also being placed on European partnerships for weapon system and sub-system component R&D and production, often with Italy receiving a significant workshare. Expectations are that the entire Italian defense industry will be privatized by the end of the century. However, to achieve state-of-the-art capability in most advanced areas, the Italians will continue to depend on cooperation with their allies.

Major Domestic Defense Suppliers

For a complete listing of Italian defense suppliers, a copy of the publication "Chi & Dov'e La Difesa in Italia" should be obtained. Copies can be obtained for approximately US \$70 from Gruppo Editoriale Publi & Consult Spa, via Tagliamento 29, 00198 Rome, Tel: 39-6-8543267, or from Trade Media International Corp., 1328 Broadway, New York, NY 10001-2190, Tel: 212-564-3380. Another source is "Italian Defense Industries Directory" from Ritade, Viale Liegi 44, 00100 Rome, Tel: 39-6-8550208.

MOD Defense Plan

Now awaiting Parliamentary approval is a "new defense model" which focuses on the need for transition from a principally conscript force to a more professional volunteer force. This transition should result in cost savings in individual training and sustainment and allow greater expenditures for force modernization and increased unit training. The MOD is dedicated to becoming more self-sustained in weapons production and logistics, but not at the expense of modernization. Also, the shift from the traditional national defense role to an emphasis on

peacekeeping deployment is driving weapon systems considerations and forcing organizational structure shifts.

Future weapons systems must be capable of a variety of roles and functions, and they must be reliable and easy to maintain. The MOD also wants to expand communications and space based capabilities, as well as improve crew protection and system survivability in more conventional systems. Electro-optical and laser related systems are in demand to improve weapons delivery and battlefield identification. The development and retention of key technical skills, both military and civilian, is a high priority in Italian defense planning. Thus, efforts are being made to increase internal production capacities and capabilities for surge requirements and jobs generation.

Increased participation in industrial offsets is becoming commonplace in Italian defense industries and appears to be officially condoned, especially when Italian jobs are increased or technology improved. Increased participation in European partnerships is also being strongly pursued, often at the expense of similar arrangements with U.S. firms. U.S. restrictions on technology transfer are an issue. Thus, the MOD is looking increasingly toward its Northern European allies for cooperative R&D and procurements.

Defense Opportunities

Major defense sector business opportunities fall within the areas of aviation, communications/electronics, command & control systems, avionics, advanced composites manufacturing, advanced electronics, advanced munitions, and computer software and simulation technologies. High demand exists for improved munitions and all varieties of simulation programs for battlefield command & control, weapons systems, and staff planning. Logistics systems which increase force survivability and sustainability in undeveloped areas are being heavily considered for future funding.

Budgetary realities, however, are forcing some tough decisions on new systems production and deployment. Plans to upgrade main battle tanks, personnel carriers, artillery & howitzer systems, air defense systems, fighter aircraft, communications platforms, anti-tank systems, small arms, and helicopters are being re-evaluated. Even so, new systems continue in development and are nearing production. The continuing requirement to provide spare parts for a number of existing U.S. manufactured weapons systems is an open opportunity. Italy is developing an improved munitions manufacturing capability, now in its early stages. Many opportunities exist for sales of munitions items such as main tank gun ammunition, artillery munitions, air defense munitions, propellants, and small arms ammunition. The need for new logistics sustainment systems such as heavy transport and fuel distribution is also a wide open area for U.S. firms.

Italy has long depended on a mixture of U.S. and European products, however, the emphasis is shifting to keep jobs in Europe, especially in Italy. In fact, any program which

stands a significant chance of acceptance generally includes some measures for improving Italian employment. U.S. firms must keep this in mind when considering opportunities in Italy. Teaming agreements or licensed production should be considered.

Italy is also pursuing entry into a joint effort to produce a theater anti-air defense capability and is expected to become a working partner within the NATO or European framework for such development. Also being explored are capabilities to expand Italian presence in satellite communications and GPS systems; and the manufacture of advanced composites, ceramics, and electronics capabilities to enhance the Italian ability to become more self-sustained.

Defense Procurement Process

Italian MOD requirements are developed and refined in much the same manner as those of the U.S., including obtaining funding authorizations. Once approved for acquisition, the MOD's Procurement Executive acts as the principal agency responsible for competition, however actual procurements are executed by the technical procuring agencies within the Segredifesa. U.S. firms looking for guidance on Italian MOD procurement procedures should contact the Office of the Segretariato Generale, via XX Settembre 123, 00100 Roma. This office can provide information on the MOD's main procurement offices and identify major Italian contractors for teaming or sub-contracting opportunities. Additionally, valuable information on bidding and contract procedures found in the monthly publication of the "Bolettino Del Contratto" (Contracts Bulletin) which lists all upcoming and executed procurements by procuring agency. This bulletin is published in both English and Italian and is available under subscription. For further information on how to subscribe, U.S. firms should contact the Office of Defense Cooperation, U.S. Embassy-Rome, PSC 59 Box 51, APO AE 09624, or the U.S. and Foreign Commercial Service, U.S. Embassy-Rome, PSC 59 Box 30, APO AE 09624.

Rarely will the Italian MOD fund developmental costs other than those for major weapons systems programs. In many of the most recent purchases, they have opted for already developed solutions and "off-the-shelf" products whose development was funded by contractor or other agencies. This does not mean they prefer this method, only that they find it often more financially advantageous and timely. Quite often, a deciding factor is whether the program will involve a significant workshare for Italy, licensed production in Italy, or a teaming arrangement with an Italian firm.

The Italian MOD prefers firm fixed price contracts; however, other types of contracts can be negotiated depending on the nature of the acquisition. Bid packets usually include all necessary technical specifications and contract information and contracting procedures are often much like those in the U.S. However, although contracts often take longer to execute, sometimes two or more years from the date of bid acceptance, a price is considered firm until the contract is finalized.

There do not appear to be any significant barriers to U.S. Contractors; however, teaming with an Italian partner whenever possible is recommended. It is often easier if the prime contractor or significant partner is an Italian entity.

As in the U.S., the prime contractor is responsible for sub-contractor selection and quality controls. The MOD normally will not interfere with the prime-sub relationship; however, competition between subs is encouraged. Contract administration is normally performed by the procuring agency whose staffs are assisted by quality assurance and technical/finance personnel.

Purchasing Agencies for the Italian MOD

Food, Clothing, Field Equipment, Furniture & Fittings

Commidife
Piazza Della Marina 4
00196 Roma
Tel: 39-6-36805663

Space, Aircraft, Helicopters, Weapon Systems, Avionics, Missiles, Logistics

Costarmareo
Viale Dell'Universita' 4
00100 Roma
Tel: 39-6-495-8346

Medicines, Medical Accessories, Sanitary Fittings

Difesan
Via S. Stefano Rotondo 4
00100 Roma
Tel: 39-6-759-1533

Construction & Maintenance of Facilities, Bridging & Boats, Mines, Power Generation, Camouflage, Demolitions

Geniodife
Palazzo Marina, Lungotevere Delle Navi
00100 Roma
Tel: 39-6-360-3904

Armored Vehicles, Wheeled Vehicles, Petroleum, Oil & Lubricants

Motordife

Via Marsala, 104
00100 Roma
Tel: 39-6-475-0605

Ships and Naval Combat Systems

Navalcostarmi
Ministero Difesa Marina
Piazza Della Marina 4
00196 Roma
Tel: 39-6-36804018

Radar Systems, Telecommunications Systems, Navigational Aids, and Computers

Telecomdife
Viale Dell' Universita' 4
00185 Roma
Tel: 39-6-4986-5258

Ground Weapon Systems, Rockets & Missiles, Battlefield Surveillance, NBC Defense, and Field Communications

Terrarmimuni
Via XX Settembre 123
00100 Roma
Tel: 39-6-464428

Diversification/Commercial Opportunities

The current Government of Italy (GOI), headed by Prime Minister Romano Prodi, has publicly reaffirmed the GOI's intention to continue the privatization initiatives of former Prime Minister Amato and his successors.

The Italian Parastatal Organizations until recently represented as much as 40 percent of Italy's GDP. It was decided that these state-owned groups, which controlled large portions of many industry sectors including banking, telecommunications, steel, insurance, energy and electricity, were contributing significantly to Italy's chronic budget difficulties and bloated public debt.

To date, eleven Italian Parastatal Entities have been fully or partially privatized including Credito Italiano, IMI, and Comit in the banking sector, and INA in the insurance sector.

Commercial opportunities for U.S. firms could be immense, especially in the telecommunications and energy sectors. Enel (electricity), Stet (telecommunications), and ENI (energy and chemicals), are Italy's largest companies after Fiat and involve public monopolies controlling key and heavily-regulated sectors of the economy. Together these companies have been valued at approximately U.S. \$50 billion. Although the entire Stet group (the IRI-Controlled Telecommunications Holding Company) is scheduled for privatization in 1997, this sector will be influenced by political considerations.

Successive government plans to move forward with the sale of Stet and Enel have fallen victim to parliamentary wrangling over the establishment of regulatory authorities to oversee the privatized electricity and telecommunications sectors. While obstacles remain, progress has been made and the privatization process is expected to go forward with the support of all mainstream political parties.

Electrical Power Systems

The Italian energy policy is strongly conditioned by the country's lack of natural resources and extreme dependence on imported energy sources. Furthermore, Italy's economic/political instability and unforeseen difficulties in implementing a national energy plan have significantly influenced the local market for energy related products, equipment and systems. At the same time, electric power demand continues to increase, requiring substantial imports of electricity from France, Austria and Switzerland. Therefore, both government and industry are keenly interested in achieving a maximum degree of energy independence and are continuously considering all possible alternatives to traditional energy producing systems. The potential market for such energy systems is strong, particularly for technology and products of sophisticated design. Good opportunities exist for solar, geothermal and clean-coal technology as well as for nuclear waste-handling and storage systems, advanced fuels-exploitation systems, and peak-load gas turbines.

In addition, energy conservation technologies and utilization of renewable sources will continue to play a significant role in Italy's power generation planning. Although energy generation by nuclear fuel has been halted, there are signs of renewed interest in this form of electric power generation. However, competition from Switzerland, Germany and France is growing through the acquisition of Italian companies and aggressive marketing. Therefore, U.S. manufacturers and suppliers should concentrate their marketing efforts on highly sophisticated and innovative products/systems, while maintaining and possibly improving their leadership in licensing and technical cooperation with Italian firms already manufacturing heavy electrical machinery under U.S. license.

Telecommunications

Italy is the world's sixth largest market in telecommunications services, after the United States, Japan, Germany, the United Kingdom and France. It is also the fifth-largest market in

telecommunications equipment, following the U.S., Japan, Germany and France. The combined telecom market in Italy for 1995 is estimated at US \$20 billion and is expected to increase by 7 percent over the next two years.

One of the main areas of growth is in telecommunications infrastructure. By the year 2002, Telecom Italia plans to invest US \$7 billion to link ten million homes with fiber optic cables. The project, known as "Project Socrates", will become the backbone for a future nationwide "electronic superhighway" to enable consumers to receive video, sound, television and telephone services through one network.

The cellular/mobile telephone segment has also experienced exceptional growth. With 5 million subscribers and a penetration rate of 6.5 percent, Italy is one of the four largest markets in the European Union. This number is projected to increase to 11 million by the year 2,000. The award of a third cellular license is expected in 1996.

The virtual monopoly of Telecom Italia in the areas of services and networks will be challenged by the advent of European Union-mandated liberalization in January 1998. U.S. telecommunications firms are positioning themselves: IBM has signed an agreement with Telecom Italia's Stet; AT & T, Sprint, Hughes Network Systems, and MCI have subsidiaries in Italy; and other companies, such as several of the Bell companies, are active through joint ventures. U.S. telecom equipment manufacturers are gaining significant market share with 1995 sales of American hardware and supplies estimated at US \$1 billion. For example, exports of cellular phone handsets by Motorola (U.S.) rose 51 percent in 1995.

Telephone operator and carrier equipment hold excellent prospects for U.S. companies. Mobile and network systems, as well as satellite communication systems and services, are also earmarked for high growth.

Aircraft & Parts

Although the Italian aviation sector experienced a slowdown in 1995, moderate growth is forecast through 1997 as the Italian flag carrier Alitalia, the largest aviation company, is expected to recover from its losses. Moreover, with Alitalia pulling back from the short-haul routes to provincial centers, small, private companies such as Avianova, Aerdolomiti, Alisarda/Meridiana, Transavio, Air One, Alpi Eagles, and Noman are moving to provide additional transportation service at both the regional and national levels. Italy offers a challenging market in this sector, especially since there are many U.S.-made aircraft now in service that must be routinely maintained with original U.S. replacement parts to comply with technical standards and safety rules.

The Italian aviation sector continues to appreciate U.S. product sophistication, advanced technology, and unique design, despite increasing European competition. U.S. manufacturers have been able to maintain their dominant position with approximately 80 percent of the import

market share in 1995. However, in order to withstand high initial investment costs, Italian aviation manufacturers often collaborate with other foreign companies.

Airport & Ground Support Equipment

In spite of increasing competition from Germany, France, and the U.K., the U.S. market position in airport and ground support equipment in Italy continues to be strong and is expected to maintain its share through the year 2000. Because Italian manufacturers supply no more than 75 percent of domestic demand and only cover low technology equipment requirements, the importance and market dominance of imports of U.S. high technology products has remained almost unchanged by the Dollar/Lira relationship. Although the Italian domestic market leveled off in 1993 and 1994 due to political instability, corruption, and nation-wide business stagnation, the market is expected to grow again in view of near term investments and expenditures for airport expansions, upgrading of infrastructures, and purchases of ground support equipment and systems in order to meet world standards for safety, performance and systems maintenance.

The GOI has demonstrated its determined support for these expansions by contributing approximately US \$350 million in 1992 and US \$290 million in 1993 for investments to take place over a five year period. Expenditures in the private sector are estimated at approximately US \$950 million through 1999. Current investments have been concentrated at 14 major Italian airports in order to update overall management and passenger/cargo terminal facilities.

Key Italian Civil Ministries

- Ministry for the Environment
Via Della Ferratella in Laterano 25/33
00184 Rome Italy
Tel: 39-6-6790151
Fax: 39-6-6797257
- Ministry of Finance
Viale Europa
00144 Rome Italy
Tel: 39-6-5923370
Fax: 39-6-5924090
- Ministry of Foreign Trade
Viale America 341
00144 Rome Italy
Tel: 39-6-59647526;59647505;59647549
Fax: 39-6-59932633

- Ministry of Health
Viale Dell'Industria 20
00144 Rome Italy
Tel: 39-6-59945292
Fax: 39-6-59945226
- Ministry of Industry, Commerce and Craft
Via Molise 2
00187 Rome Italy
Tel: 39-6-4884450
Fax: 39-6-4884748

U.S. Government Points of Contact

The following is a list of useful points of contact for U.S. firms interested in the Italian market.

U.S. Embassy

Office of Defense Cooperation
U.S. Embassy - Rome
PSC 59 - Box 51
APO AE 09624
Tel: 39-6-4674-2641/2543
Fax: 39-6-4674-2611/2360

U.S. & Foreign Commercial Service
U.S. Embassy - Rome
PSC 59 - Box 30
Tel: 39-6-4674-2382/2202
Fax: 39-6-4674-2113

THE NETHERLANDS

NETHERLANDS

Overview

With 15.5 million people living in an area about the size of the state of Maryland, the Netherlands is one of the most densely populated and affluent countries in the world. Despite its relatively small size, the Netherlands is the United States' eighth largest export market. In recent years, the U.S. has had its largest bilateral trade surplus with the Dutch, more than US \$10 billion in 1995.

Since 1991, substantial budget and personnel reductions coupled with new investment have transformed the Dutch military into a more mobile and flexible force. The subsequent dissolution of the Soviet Union and increasing instability in Eastern Europe occasioned a further reassessment of Dutch forces in 1993. This evaluation prompted a call for an accelerated transition with greater emphasis placed on crisis management operations. The need to be able to deploy forces out of area (Dutch practice restricts out-of-area deployment of conscripts) led to a decision to abandon conscription and move toward an all-volunteer force by 1996.

To date, the Netherlands has made considerable progress toward these objectives. The spearhead unit of the all-volunteer Army, the elite airmobile brigade, has been assembled and one battalion has been deployed to guard safe areas in Bosnia. Dutch participation in U.N., NATO, and WEU peacekeeping activities has been extensive.

Over the years, American defense companies have been very successful in selling their products, systems and services to the Dutch Ministry of Defense (MOD). With the advent of European unification, the Dutch consider themselves as "good Europeans" which translates into "buy European" when it comes to major government procurement in the defense area. American companies are increasingly having to work harder and smarter to stay competitive where there is European competition. In addition, the Dutch now insist on offset requirements, which call for foreign bidders to offer offset packages equal to at least 100 percent of the contract value of procurement valued over 5 million guilders (approximately US \$2.9 million). A company's offset package may now carry equal weight to price and product or service performance considerations.

American companies interested in the Dutch defense market are strongly encouraged to contact embassy officials early in the procurement process for counseling and advocacy support.

Defense Industry Environment

The downsizing of the Dutch Armed Forces is in full swing. By the end of 1995, the Dutch Armed Forces reduced force structure to about 95,000 (a 27 percent reduction over the 1990 total). This translates to a 15.5 percent reduction of Naval personnel, a 32.8 percent

reduction of Army personnel, a 19.8 percent reduction of Air Force personnel, a 7.6 percent reduction in the Merchant Marines, and a 16.6 percent reduction in Armed Forces headquarters staff.

Despite its relatively small size, the Dutch defense industry is able to supply systems, subsystems, components, and services in a number of areas including:

- Naval ships and subsystems
- Aircraft, avionics, and aerospace products
- Radars, command/control communications equipment
- Optical, electro-optical equipment
- Armored and specialized vehicles and trucks
- Ammunition, components, and packaging
- Semi-manufactured metal products
- Special purpose tooling and equipment

A complete listing of Dutch defense related companies and associated organizations entitled "Catalogue of Netherlands Defense Related Industries" can be obtained from:

Ministry of Economic Affairs
Commissariat for Military Production
Bezuidenhoutseweg 2
P.O. 20101
2500 EC The Hague
Tel: 011-31-70-379-6270
Fax: 011-31-70-379-7318

Eleven Dutch industrial organizations, fully or partly focusing on the defense market, cooperate under the acronym of the NIDAG (Netherlands Industrial Defense Associations Group) to promote their interests in defense material matters. This includes national defense equipment programs and offset programs with foreign suppliers. The changes in the defense market and the growing need for high technology systems to support the new operational requirements have led to this cooperation. It is a premise of this association that national concentration of know-how and experience will promote business in this sector. The organizations participating in the NIDIG represent over 9,000 enterprises of which about 300 are active in the defense sector.

The Netherlands Defense Manufacturers Association (NIDD) is one of the sector organizations within the NIDIG focusing exclusively on defense matters and has a general coordinating role within the NIDIG. The NIDD acts as the primary point of contact between the Dutch Ministries of Defense and Economic Affairs and offers assistance to foreign companies looking for Dutch partners to fulfill Dutch offset requirements.

For more information on the NIDAG or the NIDD, contact:

NIDAG/NIDD
19 Prinsessegracht
2514 AP The Hague
The Netherlands
Tel: 011-31-70-364-4807
Fax: 011-31-70-365-6933

Other member agencies of the NIDAG include the following (contact addresses can be provided by the NIDD):

AKT (Aanbieders Kennis Technologie) - Promotes the use of artificial intelligence in general, and the application of knowledge based systems in particular.

CWM - An employers association which represents the interests of small and medium sized enterprises in the metal, electrical, electronic, and optical industry.

HE (Holland Elektronika) - The sector organization of the Dutch association of industrial enterprises, FME, and focuses on electronics, industrial automation, and telecommunications.

Metaalunie - An employers organization in the metal industry. Business activities include production, installation and maintenance of steel, and machinery construction.

MN (Mikrocentrum Nederland) - The Dutch center for precision technology. Its activities include technology related training, education, quality assurance, and seminars.

NAG (Netherlands Aerospace Group) - Promotes the interests of its member companies in the aerospace sector and supports export activities.

NEVAT (Dutch Association of Subcontracting Industries) - Acts as a platform for the Dutch subcontracting industry and stimulates cooperation between subcontractors.

NFK (Nederlandse Federatie Voor Kunststoffen) - The sector organization for the synthetic material producing, processing, recycling, and collection industry.

NNIG (Netherlands Naval Industry Group) - Coordinates the export activities of Dutch industries working on the development and manufacture of maritime products.

Defense Opportunities

Despite its size, the Netherlands offers a wide variety of trade opportunities in the defense sector for U.S. firms. The chart below lists selected major planned MOD capital procurement from 1994-2005.

Program	Approximate Cost (\$ Millions)	Time frame
<i>Navy</i>		
P-3 Capabilities Upkeep Program (CUP)	130	1998-2002
Air Defense Command Frigate	934	1995-2003
NH-90 Helicopter	587	1994-2005
<i>Army</i>		
Automation	230	1994-2003
Trucks/Jeeps	80	1994-1998
Combat Radio	223	1994-2003
Radio Access (SCRA)	203	1994-2003
Stingers	66	1994-1998
<i>Air Force</i>		
F-16 Midlife Update	936	1994-2003
Air-to-Air Missiles	200	1995-2000
Attack Helicopters	800	1994-2003
Command and Control	539	1994-2003

In addition to the programs mentioned in the chart above, future upgrades are planned for a number of systems, including: electromagnetic countermeasures (ECM) and advanced air reconnaissance, MDS mine clearing; integrated reconnaissance, Patriot and antitank missiles, short-range air defense, continuing Apache developments, night time navigation and forward looking infrared (FLIR), and stand-off weapons capability. Early notice of new system procurement requires good in-country Dutch representation and/or close contact with the U.S. Embassy's Department of Defense/Office of Defense Cooperation; the Department of

Commerce/U.S. & Foreign Commercial Service, and Dutch government defense agencies and associations.

Defense Procurement Process

The procurement of material with an estimated value of five million guilders (approx. \$2.86 million) or more follows the Defense Material Selection Process (DMP). The DMP begins once the nature, scale, quality, and time frame of the operational requirement have been established. There are four stages to this process:

- The first stage is the preliminary study stage which examines the various alternatives that may result in the requirement being met (e.g. buying off-the-shelf or in-house development).
- A preliminary selection then takes place of products and manufacturers eligible for the following step of the selection process.
- At stage three, the remaining alternatives are examined, sometimes by carrying out comparative trials. The final choice of product and producer is then made.
- The fourth stage involves evaluation of the project. On many projects, the Minister and/or State Secretary make the decision themselves at each stage. These projects are announced to Parliament each year. The evaluation criteria is the financial commitment, the political significance, the importance of the project for Dutch industry as well as the potential for international cooperation on each project. This is the procedure used, for example, for the construction of frigates for the Navy, tracked vehicles for the Army, and aircraft for the Air Force. The decision making on all other projects is delegated to the individual services.

A simpler procedure is followed for projects which do not come under the DMP. They are the responsibility of the contracting authorities. The Dutch MOD contracting process is briefly described below.

- *Submitting Tenders*

A company needs to be aware of MOD requirements to be able to submit a tender. Generally speaking, companies included in the index of suppliers receive a request for proposal (RFP). This RFP includes, in addition to specifications, the delivery conditions and sometimes the criteria for the contract award.

- *Contract Award*

In the event of competition, the tenders submitted are evaluated by the relevant contracting authorities. The usual commercial aspects such as quality, price, delivery time, quality control, and previous achievements are assessed. Based on this, the contract either is, or is not, awarded. All bidding companies receive notice of the decision on the tender.

- *Payment*

Generally, the MOD will pay invoices within 30 days of the delivery and approval of the goods and services.

In addition, another layer of rules, regulations, and conditions may also come into effect in the procurement process including those stipulated by not only the Dutch Government, but also the EU and NATO.

- *Dispute Settlement Procedure*

There may be recourse for any supplier who considers itself to have been unfairly disadvantaged in any particular aspect in the tender invitation or source selection procedures. U.S. Embassy Officials/The Hague should be notified immediately if there appears to be any irregularities in the procurement process, particularly if there are "level playing field" issues involved.

Potential Barriers to the Contracting Process

There are no formal barriers to American suppliers seeking to compete in the Dutch defense market. However, superior price and performance offers from American companies will not always win the deal. There is a growing tendency on the part of the Dutch to "buy Dutch" or "buy European" when possible. "Buy European" political pressures are particularly high in certain big ticket purchases. In addition, in a number of recent cases, offset packages are given equal weight to price and performance of the bid package in the final procurement decision. If the competition has a better offset package, it may be awarded the contract, even if all things are not equal.

American companies looking to compete in this increasingly politicized environment should meet with U.S. Embassy officials early in the process for counseling and advocacy support.

Offsets

The Ministry of Economic Affairs/Commissariat for Military Production and Crisis Management (CMPC) is part of the Directorate-General for Industry of the Netherlands Ministry of Economic Affairs and is responsible for the Netherlands policy on military offsets. According to the CMPC, its activities aim to help maintain and improve branches of Dutch defense related industries. This entails getting Dutch companies cooperative, co-production, and offset business as part of the defense procurement process.

The CMPC is also actively involved in stimulating industrial participation in international defense programs, industrial coordination of defense technology projects, as well as support and coordination of defense exports.

Offsets are required in those cases where a foreign supplier obtains an order from the Netherlands Ministry of Defense for the delivery of defense material to the value of, or exceeding five million guilders. The foreign supplier is obligated to give offset for the full contract value. Offset priorities established by the Ministry of Economic Affairs are:

- The technological-innovation effect
- The transfer of production and management know-how
- The establishment of long-term relationships between foreign and Dutch companies

Specific areas of offset interest are:

- Information Technology
- Environmental
- New Materials (i.e. composites, ceramics, etc)
- Simulation
- Structures

Depending on the extent to which an offset program meets these priorities, the CMPC has the option to grant extra offset credit. For further information on Dutch offset regulations contact the CMPC:

Ministry of Economic Affairs
The Commissariat for Military Production and Crisis Management (CMPC)
30, Bezuidenhoutseweg
2594 AV The Hague
Tel: 011-31-70-379-7128
Fax: 011-31-70-347-4081
Contact: Mr. C. Van Rein

American companies bidding on Dutch military procurement which have offset requirements are strongly advised to contact U.S. Embassy officials listed at the end of this chapter for guidance.

Procurement agencies and decision makers within the Defense Ministry and Armed Services

The focal point for defense procurement in the Netherlands is:

Ministry of Defense
Directorate-General of Material
DMLB/MVB/WEAG Focal Point
Attn: TH. J. De Grood
P.O. Box 20701
2500 Ex The Hague
Tel. 011-31-70-318-6748
Fax: 011-31-70-318-8145

For more detailed information with regard to specific procurement announcements, the issuing branches of the Armed Forces can be contacted directly at these addresses:

Directorate of Material
Royal Netherlands Navy
Attn: Chief Procurement Division
P.O. Box 20702
2500 ES The Hague
Tel: 011-31-70-316-2676
Fax: 011-31-70-316-3577

Directorate of Material
Royal Netherlands Army
Attn: Chief Procurement Division
P.O. Box 90822
2509 LV The Hague
Tel: 011-31-70-316-4115
Fax: 011-31-70-316-9239

Directorate of Material
Royal Netherlands Air Force
Attn: Chief Acquisition Support Division
P.O. Box 20703
2500 EX The Hague
Tel: 011-31-70-349-2869
Fax: 011-31-70-349-2830

When a response to an invitation to tender requires access to classified data, U.S. firms must submit clearance information to the Director of Military Intelligence Service, within the Ministry of Defense, to establish the level of access. A NATO security clearance up to the level of access required by the invitation to tender must be presented and documented. To establish eligibility to respond to classified invitations to tender, clearance information should be provided to the following address:

Ministry of Defense
Director of Military Intelligence Service
Attn: Chief Industrial Security
Kalvermarkt 28
P.O. Box 20701
2500 EX The Hague
Tel: 011-31-70-318-8431
Fax: 011-31-70-345-9189

The defense ministries of the Western European Armaments Group (WEAG) each publish military requirements and awarded contracts in nationally issued bulletins. The Dutch Bulletin is entitled "Contract Bulletin for Military Requirements." Subscriptions for this publications can be obtained for HFL 250 (approx. \$140) (excluding value added tax) from:

NIDD
19 Prinsessegracht
2514 AP The Hague
Tel: 011-31-70-364-4807
Fax: 011-31-70-365-6933

The Dutch Ministry of Defense does not assign special identification codes to its suppliers. However, it screens or pre-qualifies its potential bidders. The MOD requests certain information about a company before it will be registered as a potential supplier. A company's reputation, financial status, and capabilities may be verified. If a foreign company has or had contracts with its own country's defense department or MOD, inquiries may also be made about the company's past performance and capability to perform the type of work or contract under consideration. To be registered as a potential supplier, a company must send a request to one of the military issuing branches listed above.

Diversification/Commercial Opportunities

Most of the defense-related investment activity between Dutch and American defense firms is centered around cooperative agreements to fulfill procurement contracts to the Dutch Ministry of Defense (MOD) or activities related to satisfying the increasingly stringent Dutch "offset" requirements. There are few commercial opportunities in the Netherlands associated

with privatization of defense industries, as virtually all Dutch manufacturers of defense equipment are privately controlled and the Dutch Government has withdrawn most of its ownership stakes in the aerospace company Fokker, and its subsidy support for the truck manufacturer DAF. Although Fokker has gone into receivership, large parts of the company continue to operate, and are expected to be taken over by other commercial organizations. American companies competing on Dutch defense contracts will be encouraged by Dutch private and public sector officials to look for joint venture, co-production, and other cooperative opportunities with Dutch companies to make their bid offers more attractive as well as ensuring that Dutch offset requirements can be met.

The Netherlands is home to many industries where there is a significant cross-over of products and technology. Dual use sectors include: vessels and vessel accessories; instruments and electro-optical equipment; chemicals, oils and greases; communication and computer equipment; machine tools and workshop equipment; and medical equipment.

In a country that has prospered from shipping and trade for centuries and boasts the world's largest and busiest port, Rotterdam, state-of-the-art products involved in maritime radio communication, navigation aids, port management, and logistics are also in demand. In addition, billions of dollars of public and private sector money will be invested in the port and city of Rotterdam over the next fifteen years in infrastructure projects in an effort to maintain the port's competitive edge as the major maritime transportation hub for Northern Europe. Likewise, hundreds of millions of dollars will be invested in Amsterdam's Schiphol Airport to improve its already excellent reputation as one of the world's most efficient passenger and cargo airports.

Points of Contact at Key Non-defense Ministries:

Ministry of Foreign Affairs
Bezuidenhoutseweg 67
2594 AC The Hague
Tel: 011-31-70-348-6486
Fax: 011-31-70-348-4848
Contact: H.J. De Vries or Drs. K.
Klompenhouwer

Ministry of Transport and
Waterways
Plesmanweg 1
2500 EX The Hague
Tel: 011-31-70-351-6171
or 351-7250
Fax: 011-31-70-351-7895
Contact: Ms. P. Reynease

Ministry of Economic Affairs
Bezuidenhoutseweg 30
2594 AV The Hague
Tel: 011-31-70-379-7128
Fax: 011-31-70-347-4081
Contact: C. Van Rein

Ministry of Agriculture
Bezuidenhoutseweg 73
2594 AC The Hague
Tel: 011-31-70-379-3911
Fax: 011-31-70-381-5153

Ministry of Interior Affairs

Schedeldoekshaven 200
2500 EA The Hague

Tel: 011-31-70-302-6302
Fax: 011-31-70-363-9153

Rotterdam Port Authority
Galvanistraat 15
3029 AD Rotterdam
Tel: 011-31-10-489-6911
Fax: 011-31-10-477-8240

Schiphol N.V.
P.O. Box 7501
1118 ZG Schiphol Airport
Tel: 011-31-20-601-9111
Fax: 011-31-20-601-3123
Contact: H.N.J. Smets

Doing Business in the Netherlands

The Dutch market continues to be an outstanding business arena for American firms, both as an end market and as a means of entry into the rest of Europe (including Eastern Europe and the CIS). The Netherlands is a nation of traders and Europe's single most important distribution center. Over 50 percent of American exports into the Netherlands are transhipped to the rest of Europe and beyond. The Dutch and European markets are receptive to a very wide range of American products. American industrial goods, as well as consumer goods, are popular and possess a reputation for quality.

Cultural Norms and Procedures

Dutch business culture closely parallels the American business culture. The Dutch seek to get down to business quickly. They can be very direct, blunt, and honest, and also very practical. A handshake can seal an agreement. Dutch business persons can be tough negotiators, but once a deal is made, it almost always is kept, preferably on a long-term basis under "win-win" conditions for them and their business partners. They are generally conservative, seeking to develop a close, personal business relationship on a gradual basis.

Obstacles to Doing Business

Relatively few trade complaints are registered by American firms against Dutch firms. The Dutch tendency to support a level playing field in trade matters and their depth of experience in trade positions them as the genuine "neutral" traders of Europe. American companies looking to do business in the Netherlands, however, will come up against a complex business culture, in

which companies, trade unions, government bodies, and industry associations engage in constant and close consultations. This comes, in part, from the traditional Dutch emphasis on achieving consensus and avoiding conflict in this small and densely populated country.

As mentioned above, there is also a growing trend, particularly in larger government procurement, to "buy European" if not Dutch. This has been especially true in recent defense procurement where there has been true Dutch or European competition. The Dutch consider themselves to be good Europeans and, from a practical point of view, they see political advantages in buying European, especially when all else is relatively equal in a bid competition. In this regard, local representation is almost essential for American companies hoping to have a real chance to win major government contracts. A joint venture with a Dutch or European partner may, in some cases, improve the U.S. company's competitive position. U.S. firms looking to compete on Dutch government procurement are again reminded that they should contact the commercial section at the U.S. Embassy early on in the process for guidance, particularly if there are political or level playing field issues which might arise.

Export Control Issues

For information on export control issues, contact the U.S. Embassy or the following Dutch ministry.

Ministry of Economic Affairs
Division for Strategic Trade and Sanctions
Directorate General for Foreign Economic Relations
30, Bezuidenhoutseweg
2500 EC The Hague
Tel: 011-31-70-379-6209

Import Licenses

Only a small number of goods of U.S. origin require import licenses, including some arms and munitions products. Licenses are generally rapidly granted for goods of U.S. origin. However, while licenses are not transferable, they may be used to cover several shipments within the total quantity authorized. In general, the goods involved are indicated on the license by the harmonized system classification number and the corresponding wording of the tariff position. Merchandise may be examined by the importer before customs clearance for the purpose of making an inventory. Goods cannot clear customs without shipping documents and payment of any customs duty, applicable value added taxes, and any excise taxes. These formalities must be undertaken by the importer at the time of clearing customs. Import licenses, if required, should be presented by the importer within the period for which they were issued.

Shipments to the Netherlands require one copy each of the bill of lading (or air waybill) and the commercial invoice for customs clearance. There are no consular requirements, but certificates of origin may be required.

Temporary Entry

Goods may clear customs with an EU transit procedure that provides for the issuance of a single transit document under which the goods may be easily shipped across frontiers of the EU member states. These transit documents are completed by the importer for a freight forwarder engaged for the purpose. The transit document provides the basis for a single, comprehensive procedure covering the goods within the Union. Since this is an EU procedure, the European importer, Customs House Broker, Freight Forwarder, or Shipper must prepare these documents at point of entry.

Teaming with Local Firm or Representative

American companies looking to do business in the defense sector in the Netherlands need a local representative, agent or distributor or a local presence to be successful. This statement is true almost without exception. Since the Netherlands represents a compact market, foreign firms customarily have one exclusive representative for the entire country, but it is common for the representative to appoint subagents to cover certain sectors of the market if sales volume and profit margin warrant.

While it is important to obtain specific legal advice on appointing an agent or distributor, there are some general guidelines that should be followed. All agent agreements should be in writing and state if it is an exclusive arrangement. Termination of the relationship is the single main area that most frequently causes problems for American exporters. Generally, the civil codes protect the interests of the representative. In the absence of termination provisions in a written agreement, the law provides for a minimum notice of termination of four months. Parties may agree to other terms, provided the notice of termination is not less than one month and up to 6 months, depending on the duration of the agency relationship. An agreement with a definite period terminates on the agreed expiration date. If the parties continue to operate under the agreement after that date, the agreement is usually deemed extended for a further identical period but not for more than a year. If the American principal wants to terminate the relationship, notice of termination should be given even with definite term contracts.

The termination of an agreement without the required notice makes a principal liable for compensation. The agent could seek to claim the amount of the commissions that would have been earned during the termination period or for the amount of actual damages suffered. In exceptional cases, and only for just cause (such as competition or fraud), an agreement may be terminated without notice provided the other party is immediately advised of the reason. In such cases, the courts may be requested to terminate the contract.

At the expiration or termination of an agreement, by whatever means, an agent who has increased the value of the business is entitled in principle, to an adequate remuneration which cannot exceed the average of the commissions in one year. Such claims by agents are subject to an expiration term of one year. Before entering into any agreement with a partner, the American principal should first review the provisions of Dutch law with a qualified attorney. The legislation regarding unilateral termination of distribution agreements is designed to provide the local distributor with some degree of protection and monetary compensation when an agreement is terminated by the grantor, for reasons other than cause. The legislation will apply regardless of any clause in the agreement itself, and the parties may not deviate from the legislation as long as the distribution agreement is in force.

Intellectual Property Protection

The Netherlands has legislation for the protection of patents, trademarks, and industrial designs. It is a member of the Paris Union, which adheres to the international convention for the protection of industrial property. Detailed information and applications for patents, registration of trademarks, and for design protection should be obtained from:

European Patent Office
Patentlaan 2
2288 EE Rijswijk (ZH)
Tel: 011-31-70-340-2040
Fax: 011-31-70-340-3016

The Netherlands is also a signatory to the European Patent Convention, which provides for a centralized European-wide patent protection system. The European Patents Act of 1977 provides increased legal protection, a patents court, and guidelines for compensation of an inventor. The European Patent Convention has simplified the process for obtaining patent protection in the EU member states. Under the European convention, an applicant for a patent is granted a preexamined 15-year, nonrenewable European patent that has the effect of a national patent in all 16 countries that are signatories of the convention, based on a single application to the European Patent Office. This procedure should expedite the granting of patents. However, infringement proceedings remain within the jurisdiction of the national courts, which could result in some divergent interpretations. For information, write to:

The European Patent Office
Motorama-Haus
Rosenheimer Strasse 30
Munich, Germany.

U.S. Government Points of Contact

Listed below are helpful U.S. points of contact for U.S. firms interested in the Dutch market.

U.S. Embassy

Commercial Counselor
U.S. & Foreign Commercial Service
American Embassy
Lange Voorhout 102
2514 EJ The Hague
Tel: 011-31-70-3109-417
Fax: 011-31-70-363-2985

Col. Ronnie Lewis
Office of Defense Cooperation
American Embassy
Lange Voorhout 102
2514 EJ The Hague
Tel: 011-31-70-3109-282, Fax: 011-31-70-364-8330

NORWAY

NORWAY

Overview

Norway's defense budget plan emphasizes modernization of existing equipment and acquisition of new modern defense technology. The Norwegian goal is to have more than one third of future defense budgets earmarked for material purchases which would result in a real increase in defense acquisitions.

Norway is currently in the process of updating/replacing a significant part of its major defense systems including naval vessels, fighter aircraft, helicopters, transport aircraft, armored vehicles and missile systems. A total of USD 10 billion is planned for investment in modern defense equipment over the next decade. Some of these projects have been awarded, and U.S. suppliers already have secured important contracts.

Historically, American companies have had great success in supplying Norway's military forces with equipment and services, and Norway should remain a good market for American companies selling defense-related equipment and services so long as these companies offer something unique and can provide direct offset opportunities to Norwegian defense industries.

Defense Industry Environment

American companies have had great success in supplying Norway's military forces with equipment and services. This has been done via foreign military sales (FMS), direct commercial purchases, and NATO programs. However, as the nature of the military threat to Norway has changed, Norway's and NATO's programs and plans have changed to meet the new challenges of a vastly different global situation. GON officials feel that Norway's special location and conditions will require continuous investments in modern defense equipment and exercises. Consequently, there will be a number of local projects and NATO infrastructure programs for foreign companies. Also, a large portion of the Norwegian military's equipment is aging leading towards acquisition of more high technology equipment to meet modern combat requirements. American companies will now face more competition from European companies as Norway's relations with Europe strengthen. Norway is a member of the Independent European Programme Group (IEPG), and also has bilateral Memoranda of Understanding (MOU) with nine countries (including the United States) regarding military acquisitions and cooperation. However, Norway should remain a good market for American companies that sell defense related equipment and services.

Norway is a net importer of defense material and the number of local firms engaged in large scale production of high-tech defense equipment is very limited. Only a handful of

companies are regarded as important defense equipment suppliers while many firms have specialized in smaller niches of this market. Some 50 domestic companies specializing in defense (as well as civilian) products have formed an association named Norske Forsvarsleveranser (NFL), or Norwegian Defense Industry Group, headquartered in Oslo at the following address:

Confederation of Norwegian Business and Industry (CNBI)
Defense Industry Group (NFL)
Middelthunsgate 27
0386 Oslo, Norway
Att: Mr. Bernhard J. Eggesbo, Director
Tel: (47) 22 96 50 00
FAX: (47) 22 96 53 71

This is an important organization with links to the entire Norwegian business community, as well as the military sectors.

Although Norway's defense budget (NOK 23.960 billion in 1994 and NOK 22,620 in 1995) is shrinking slightly, with a stated goal of zero real growth, there is an aim towards continued modernization and acquisition of modern defense technology. Plans for extensive military acquisitions during the next decade include defense material valued at USD 10 billion. The Navy program calls for building/replacing of six fully equipped frigates. The Air Force is well into a replacement plan for old F-16's with a preliminary purchase of 20-40 new fighter aircraft as well as an upgrade of the fleet of utility helicopters. The Army has announced plans to acquire 20 attack helicopters, replacement of old C-130's and build an army training facility, among other things. While all of these purchases may not be from the United States, a 70% success rate would not be unrealistic.

Norway's Major Defense Projects for 1996-2000

Utility Helicopters	\$240 Million
F-16 Upgrade	\$257 Million
Attack Helicopters	\$1.5 Billion
AMRAAM	\$370 Million
KFA-96 Next Generation Fighter	\$2.5 Billion
C-130 Cargo Aircraft	\$370 Million

KFA-96 Next Generation Fighter

Norway is in the process of replacing its aging fleet of F-5's and F-16's. The number of aircraft replacements will be between 24 and 48, and the estimated value for this project is USD 2.5 billion. The name of the overall flight project is Kampflyanalysen - 96 (KFA-96-future fighter aircraft) and the name of the contracting authority is:

Royal Norwegian Air Force Material Command
Procurement Division
P.O. Box 10
2007 Kjeller, Norway
Tel: (47) 63 80 80 00
Fax: (47) 63 80 88 99

F-16 Upgrade

The F-16 upgrade is being performed by Lockheed Martin and is almost complete. The next item for the F-16 family is to replace the F-16's that Norway has lost and the 15 aging F-5's. There are four competitors to replace the F-16 and F-5 aircraft: two U.S. companies: McDonald Douglas with the F-18 and Lockheed Martin with the F-16. There are two foreign competitors: Rafael (France); Eurofighter (European consortium). The remaining F-16's will be replaced either with the same four companies or with the joint strike fighter.

The first round selection from six potential suppliers produced a short list of these four companies. Second round selection will produce a short list of two competitors, and who will be included in the third round of negotiations in January 1997. Negotiations will consider technical aspects, costs and performance, and not least, industrial cooperation (offset proposals). The expected award date will be shortly thereafter.

Attack and Utility Helicopters

Also, the Norwegian defense authorities have decided to include a request for 20 new army attack helicopters in the long term defense budget, commencing in 1999. Estimated value for this project is USD 1 billion and the expected award date will be in 1999 or 2000. The plan has not yet been discussed in the defense committee, but there appears to be a general parliament consensus for this giant defense investment project appears to be positive. The contracting authority will be the Royal Norwegian Air Force Material Command.

In addition, there are plans to install helicopters on board the six new Navy frigates being built, and to replace the old Lynx helicopters currently used by the Norwegian coast guard. These 40 utility helicopters will be operated and owned by the Norwegian Air Force.

Advanced Medium Range Air to Air Missile - AMRAAM

Norway has a contract for the delivery of 824 missiles. The total cost of this project is USD 370 million. This makes Norway the largest foreign customer in the world. The missiles are produced by a unique teaming arrangement of Kongsberg (a Norwegian company), Raytheon and Hughes.

C-130 Cargo Aircraft

This is currently the hottest program in Norway. Norway is expected to purchase 6 new C-130Js. At present, Lockheed Martin appears to be the contractor that will supply the planes. The value of the program is USD 370 million.

Although a considerable share (50 percent in terms of value) of defense material is imported from foreign suppliers, Norwegian companies normally secure the majority of the defense material contracts; some through direct awards, and others by joint ventures or "regular" offset arrangements. Approximately 50 companies are considered "qualified" suppliers of specialized military equipment. Several contracts have recently been won by local manufacturers specializing in major product sectors such as tactical communication and command/control systems, and smaller specialized naval vessels.

During the last decade, Norway's MOD issued 64 contracts valued at \$3 billion, to 35 foreign suppliers. The total compensation/offset share obtained from these contracts was reported at \$1.8 billion. Much of this offset, although "high-tech," is not necessarily military equipment or services and is often destined for third markets. From 1950 to 1996, Norway has bought U.S. defense equipment valued at USD 3.6 billion.

Although U.S. defense equipment suppliers have a substantial share of the Norwegian military market, Norway's membership in the European Economic Area (EEA) and associated membership in the Western European Union (WEU) may lead to a demand for more purchases from suppliers established within the EU. Major European suppliers of defense equipment to Norway's military forces include Sweden, Germany, the U.K., and France.

The Norwegian Government and the Norwegian defense material industry have targeted critical areas in which they believe Norwegian defense industry is competitive and where they will stress international development and cooperation. These areas are listed below.

- Hardware/Software for communication, command, control and information systems
- Radio, Satellite and Line Communication
- Electro-Optical systems
- Fire Control Systems
- Missile Technology
- Ammunition/Explosives (including destruction of waste ammunition)
- Undersea technology
- High-speed vessel technology
- Space research

These sectors also are of particular interest in most offset/compensation plans and suppliers able to focus on technology within these fields will be favored.

Defense Procurement Process

All military equipment acquisitions in Norway are under the auspices of the Norwegian MOD. The relevant agency within the MOD is listed below.

Royal Norwegian Ministry of Defense
Att: FD IV-6
Myntgaten 1
P.O.Box 8126
Dep 0032 Oslo, Norway
Tel: (47) 22 40 20 00
Fax: (47) 22 40 23 23

Weapons acquisitions are handled by the procurement offices within each of the military services under the auspices of the Norwegian Ministry of Defense. The military services evaluate proposals/systems based on technical performance and cost, while the Ministry of Defense evaluates the offset proposals. Most procurement plans are advertised in the monthly publication, "Norwegian Defense Contracts," issued by the Norwegian Defense Command. Information is provided for both prime and subcontractor levels. This publication can be obtained from the following agency.

Norwegian Defense Contracts
HQ Defense Command Norway
WEAG Focal Point
Oslo Mil/Loeren
N-0018 Oslo, Norway

In addition to the procurement plans advertised in the monthly publication, "Norwegian Defense Contracts," issued by the Norwegian Army Materiel Command, Budget and Accounts Office, the MOD publishes an industrial protocol covering cooperation/joint ventures, general purchase provisions, and offset agreement samples. In 1993, the MOD also issued a publication (in English), "How to sell to the Norwegian Armed Forces". Copies of this document can be obtained from the following agency.

The Ministry of Defense
Press and Information Department
Myntgata 1
0151 Oslo, Norway
Tel: (47) 22 40 23 11

Regarding bid procedures, Norwegian defense authorities require extensive information about the bidding company and its capabilities as well as its products. Procurement activities may require testing a product at their local facilities or visiting the test sites of the suppliers.

Most NATO tender notifications are channeled through the various embassies. The American Embassy (US&FCS and the Office of Defense Cooperation) forwards these notifications back to the U.S. Department of Commerce in Washington for dissemination via electronic bulletin boards, the National Trade Data Bank, and other methods for American companies to access the major opportunities in the Norwegian market.

Other defense procurements are advertised in the Norsk Lysningsblad (Norway's Gazette); however, in most cases, the solicitations are mailed directly to suppliers known to the purchasing office. At least three bidders are included for each procurement. The Ministry of Defense does not regularly schedule conferences to announce upcoming military procurements, but it does hold informative seminars in special cases.

As in other countries, local representation by foreign firms has proven very useful, if not essential. Most foreign firms successful in selling to Norway have local representation or sales offices, or have marketed themselves directly to the military authorities and the procurement officials through product presentations and regular personal contact.

Offsets

Official Norwegian policy is that offset/compensation is required on contracts above NOK 50 million (including options). The requirement is to obtain a hundred percent compensation, but the actual amount of offset has varied with the project. The offset may be either direct or indirect. While previous offset programs mainly were concentrated on direct purchases of industrial commodities from Norwegian industry, the emphasis of the Norwegian Government is now focused on more long term arrangements involving technology transfer and/or providing technological competence to the local defense industry.

The amount and types of offset are determined through negotiations. In-country experience or close contacts are usually a strong advantage, but the defense industry group within the CNBI can be of assistance in developing an offset package.

Specifications are normally included in the solicitation package. If additional specifications are required, they may be obtained from the appropriate contracting agency or the following specification repository:

Defense Combined Materiel Agency
IEPG Focal Point
Oslo Mil/Loeren
0018 Oslo, Norway
Tel: (47) 32 89 65 47
Fax: (47) 22 22 54 81

Contract Process

The sealed-bid procedure is the normal procurement method. Military purchases often are made from selected suppliers. Prior to final negotiations, the purchasing office issues a draft contract. At this time, the offset conditions are negotiated by the MOD and agreed upon in an "industrial protocol" prior to contract signature.

Fixed-price, cost-plus, and incentive contracts are used. Fixed-price contracts are used most frequently. The type of contract is normally not negotiable. Norway's general contract provisions are included in Forms 5051 and 5053 (general provisions). They include shipping instructions, technical documentation, work schedule, delivery schedule, payment procedures, and so on. In addition, each contract will have special provisions such as warranties, codification, option rights, obligation to supply spare parts, etc.

Pre-award surveys to assess technical and financial competency are required for procurements of an extensive or complex nature. These are normally handled by the purchasing offices. Pre-award surveys are restricted to the items that are of interest to the buyer in connection with the contemplated procurement. The procurement authority appoints the necessary technical personnel to carry out the supplier analysis and ensures that appropriate agencies participate to the extent necessary.

In the case of large contracts, importance is attributed to appraisals of the supplier's capacity for direction and control and especially the supplier's ability to meet scheduled delivery requirements. All information and data obtained are confidential and will be used only for the purposes for which they were collected.

Norway recognizes U.S. security classification procedures. U.S. firms wishing to participate in Norwegian procurements containing classified information should pursue this through U.S. Government sources. Norway has an industrial security regulation comparable to U.S. DOD's 5220.22-R.

Contract administration procedures and the organizations responsible for this service are identified in the general provision form 5053. Unless otherwise specified in the contract, the principles of Allied Quality Assurance Publication No. 4, NATO Quality Inspection System requirements for industry, or equivalent national government publications shall apply. The contracting office has the right, at its own expense, to inspect and observe development and production. Quality assurance services are performed by the Defense Combined Material Agency, but the actual responsibility for quality assurance rests with each materiel command.

Notices are not sent routinely to unsuccessful bidders. In special cases, contractors may request that the procuring agency review its contracting process. An additional Administrative Appeal Authority outside the procuring agency is the MOD. If negotiations between the parties fail and they do not mutually agree to arbitration, the case may be brought before the civil courts.

The Norwegian Ministry of Defense issues annually a list of defense products with duty-free entry provisions. This list is addressed to and received by Norwegian customs authorities and includes, among other items, aircraft and aircraft parts, military products and services connected to the weapons production program between the United States and Norway, NATO programs concerning equipment lease, exchange, or borrowing, and medical supplies and equipment.

Diversification and Commercial Opportunities

Privatization

Norway has a group of almost 100 small (by American standards) companies specializing in defense equipment and dual use items. There are two major companies of which Kongsberg (previously Norsk Forsvarsteknologi/ NFT) is the most well known. All of these companies, some of which are subsidiaries of European companies (e.g. ABB, Siemens, etc), work very closely with the GON, which is adamant about maintaining a viable defense industrial base. Kongsberg recently purchased other Norwegian defense and electronics firms to become stronger in international civilian markets. The GON retains managerial control of Kongsberg by holding a majority of its stock. At the same time the GON is seeking to rebuild Kongsberg into a bigger and more diversified company reminiscent of the "Kongsberg Vaapenfabrik" that was broken up in the late 1980s as a result of the "Kongsberg-Toshiba" export licensing case. There has also been a strong effort on the part of the MOD to support its small defense industry by requiring 100 percent offset for any Norwegian military contracts in excess of 50 million NOK. Moreover, it is not an easy process for an American company to acquire a controlling interest in any Norwegian company or to manage that company with wide latitude, given the nature of the Norwegian economy and labor practices.

High Technology Sectors

The Norwegian Government seems to be using its substantial oil and gas wealth (e.g. in 1993 Norway was the third largest oil exporter in the world, behind Saudi Arabia and Kuwait) to further develop a "high-tech" industrial base in Norway. Full employment is one of the major policies of the ruling "labor" government in Norway, but with Norwegian wage rates much higher than in the United States, the GON is seeking to develop industries that are not as "wage-rate sensitive." Consequently, "high-tech" dual use fields and technologies would seem to make sense for Norway. Since the GON has negotiated an "accession agreement" with the European union, there seems to be significant momentum to look more closely at European military equipment and cooperation. The following is a list of non-defense agencies which may be helpful to U.S. firms in commercial areas

Royal Norwegian Ministry of Foreign Affairs
(Utenriksdepartementet)

and the Ministry of Commerce & Shipping
(Handelsdepartementet)
7 Juni Plass 1
P.O. Box 8114 Dep
0032 OSLO, Norway
Tel: (47) 22 34 36 00
Fax: (47) 22 34 95 80

Royal Norwegian Ministry of Industry and Energy
(Naeringsdepartementet)
Ploensgate 8
P.O. Box 8148 Dep
0033 Oslo, Norway
Tel: (47) 22 34 90 90
Fax: (47) 22 34 95 25

The Royal Ministry of Transportation and
Communications
Mollergaten 1/3
P.O. Box 8010 Dep
0030 Oslo, Norway
Tel: (47) 22 34 90 90
Fax: (47) 22 34 95 70

The Ministry of Environmental Affairs
(Miljoverndepartementet)
Myntgata 2
P.O. Box 8013 Dep
0030 Oslo, Norway
Tel: (47) 22 34 90 90
Fax: (47) 22 34 95 60

The Norwegian State Pollution Control
(Statens Forurensingstilsyn (SFT))
Stromsveien 96
P.O. Box 8100 Dep
0032 Oslo, Norway
Tel: (47) 22 57 34 00
Fax: (47) 22 67 67 06

Statens Naerings- & Distriktutviklingsfond
(SND)
(Regional Development Fund)

Akersgaten 13
P.O. Box 448 Sentrum
0104 Oslo, Norway
Tel: (47) 22 00 25 00
Fax: (47) 22 42 96 11

Doing Business in Norway

Although more than 150 U.S. companies have sales subsidiaries in Norway, the most common way of doing business is through agent/distributors. More than 2,700 U.S. companies are represented by Norwegian agent/distributors with a unique but very practical and necessary sales network. Three quarters of Norway's 4.25 million people reside in Southern Norway, and most of the major importers and distributors are headquartered in the Oslo region. Some of these companies have sub-agents or sales offices established in other major Norwegian cities. The rest of the country is made up of widely dispersed, small population centers which are costly to serve due to long distances and high freight expenses. As there are few countrywide, multistore chains and most retailers and distributors are small by American standards. Sub-agents and secondary distribution is the standard and workable method of handling Norway's scattered Northern markets.

With proper market promotion and support, a good local business partner and/or an astute local office, U.S. companies have unusually good prospects in this small, but affluent market. Moreover, with the EEA, U.S. companies may find some licensing, joint-venture agreements and establishing Norwegian subsidiaries to be excellent vehicles for tapping upscale markets beyond Norway (e.g. Scandinavia).

Another factor making it easy for Americans to do business in Norway is that most, if not virtually all, Norwegians speak excellent English.

There are few restrictions in establishing a subsidiary or a branch operation in Norway. A subsidiary may be wholly owned and a branch may conduct full business transactions. A company must have NOK 50,000 as minimum capital, and at least 50 percent of the Board of Directors must be Norwegian nationals or they must have lived in Norway for the past two years. Both companies and branches are subject to income and capital tax. Norway has a highly educated labor force and labor costs are among the highest in the world. In general, labor costs (including social benefits) as a percentage of total production, are far higher in Norway than in its foreign competitors.

With the exception of stringent import regulations on agricultural commodities and, to some extent, a monopoly on telecommunications equipment, there are very few trade restrictions in Norway. The country is heavily dependent on foreign trade, and its trade policy is generally aimed at expanding its trade and shipping services.

However, since Norway is now is a member of the European Economic Area (EEA), the nation is gradually adapting to the EU's technical standards and regulations. Norway, as an EFTA/EEA member, currently enjoys an industrial free trade agreement with all EU member countries. Norway is using the harmonized system (HS) for commodity classification and the import duties are relatively low on products imported from third country suppliers. There are few technical standards enforced and U.S. suppliers have not faced significant trade barriers. However, some obstacles have been experienced in regards to some specialized electrical equipment.

European CENELEC and BASEFA safety standards on electrical equipment for use in hazardous areas are favored in North Sea Oil and Gas Production Facilities and offshore exploration rigs. Also, quality assurance is paramount for all equipment destined for the Norwegian offshore market. Norway has to a large degree adopted the ISO 9000 standards for quality assurance (QA) and quality control (QC). Electrical equipment sold and used by the public (consumer electronics and household electrical appliances) must have an approval from NEMKO or similar control establishments within the EU. For further information, contact:

Norwegian Electrical Control Board
(Norges Elektriske Materiellkontroll-Nemko)
Gaustadalleen 30
0371 Oslo, Norway

U.S. Government Points of Contact

Listed below are helpful U.S. and Norwegian Government contacts for U.S. firms that are interested in the Norwegian market.

Senior Commercial Officer
USFCS Oslo
American Embassy
Drammensveien 18
0244 Oslo, Norway
Tel: (47) 22-44-85-50/x 2235
Fax: (47) 22-44-98-92

Chief
Office of Defense Cooperation
American Embassy
Drammensveien 18
0244 Oslo, Norway
Tel: (47) 22-44-85-50
Fax: (47) 22-55-88-30

Norwegian Government:

Logistics Attache
Royal Norwegian Embassy
2720 34th Street, NW
Washington, DC 20008
Tel: (202) 331-8222

Defense Combined Materiel Agency
IEPG Focal Point
Oslo Mil/Loeren
0018 Oslo, Norway
Tel: (47) 22 89 65 47
Fax: (47) 22 22 54 81

Royal Norwegian Air Force Material
Command
Procurement Division
P.O. Box 10
2007 Kjeller, Norway
Tel: (47) 63 80 80 00
Fax: (47) 6 80 88 99

Norwegian Army Material Command
Purchase and Economics Branch
Lorenveien 38
0585 Oslo
Tel: (47) 22 89 60 00
Fax: (47) 22 49 57 72

Royal Norwegian Navy Material Command
Contracting Branch
P.O. Box 3
N-5078 Haakonvern, Norway
Tel: (47) 55 50 20 00
Fax: (47) 55 50 25 74

Norwegian Defense Communications and
Data Services Administration
Contracting and Procurement Branch
Langkaia 1
0150 Oslo
Tel: (47) 22 40 24 00
Fax: (47) 22 40 25 30

POLAND

POLAND

Overview

The sweeping economic and political changes that have occurred in Poland since 1989 have had significant effects on Polish defense sector, on both the government and industry sides. In a few short years, Poland's enemies of the last forty years are close to becoming its allies. Free market reforms have forced companies to consider the bottom line in production of military items and, to improve their financial situation, defense manufacturers have been shifting more resources into the production of non-military goods. Four separate governments have come to power in five years. These factors have created a defense industry that is, at best, disorganized and lacking guidance from the government.

Poland's gross domestic product (GDP) grew by 3.8 percent in 1993 and the government projects GDP growth of 4.5 percent for 1994. While overall unemployment remains high (about 2.8 million jobless), the unemployment rate began to edge down in early 1994. After peaking at just over 16 percent in February, the rate fell to 15.5 percent in May. The rate of inflation in Poland, which was almost 600 percent in 1990, continues to decline and the annual inflation rate for 1993 was 35 percent. The government forecasts an annual inflation rate of 27 percent for 1994.

The sweeping changes in Poland create opportunities for U.S. companies. Poland's desire for membership in NATO should lead to opportunities for upgrades and adjustment. Defense firms, reeling from free market reforms, are now seeking western partners. Opportunities for American firms exist mainly in investment, technology transfer, and co-production work, as neither the Polish Government nor Polish companies have the funds to make large equipment purchases. Receptivity to American companies is high, though, due to a belief in the high quality of American products and the generally positive attitude towards the United States.

Defense Industry Environment

Within the 1997 Polish budget, the Ministry of Defense was appropriated \$2.2 billion, of which \$300 million was earmarked for equipment purchases. Within the procurement budget, only \$404 million was allocated for foreign equipment purchases. The defense budget represented about 6.9 percent of all government expenditures and approximately 2.3 percent of the Polish Gross Domestic Product for 1997.

Regarding Polish industry capabilities, the production of tanks, fighter aircraft, anti-aircraft guns, and communications stations were the "specialties" assigned to Poland within the Warsaw Pact. Worsening relations with the Soviet Union in the 1960's curtailed production and arms plants began diversifying towards civilian goods. During the 1970's and 1980's, a modernized arms industry began producing newly designed T-54 and T-55 tanks, aircraft, and

tactical missiles. The Polish defense industry contracted again, with the advent of perestroika in the late 1980s.

Defense firms in Poland, deprived of preferential government investment and saddled with outdated technology and an underemployed work force, have been struggling to survive. The collapse of the Warsaw Pact market, which accounted for 80-90 percent of defense sector output, and shrinking world arms markets, particularly for the generally low-technology weapons produced in Poland, all but destroyed the long-term prospects for weapons production. In 1993, defense production as a percentage of total industrial output dropped from eight percent in the late 1980's to around 1-2 percent. Moreover, defense goods reportedly account for less than half the total output of the 31 plants deemed by the government to constitute the core of the defense manufacturing sector.

In addition to these challenging conditions, ambitious plans to preserve a diversified but smaller defense sector have been hampered by inflation and a shortage of capital for civilian goods. Polish defense firms, many in the throes of bankruptcy, continue to cut costs by laying off workers and slashing production levels.

The Polish defense industry, however, still looks to the government for massive assistance.. Successive cabinets have cited defense industry restructuring as a key element of both industrial and national security policy. Arms manufacturers believe that if their products are made compatible with NATO standards, they could again become competitive, particularly if quality remains high and the price of finished products remains low.

Polish arms manufacturers are eagerly seeking investment from the west. The 1994 arms show at Kielce attracted exhibitors from France, Sweden, Israel, Germany, and South Africa, as well as the U.S. Polish firms are actively negotiating with U.S., Swedish, Israeli, and South African firms that produce high technology items and upgrades for equipment, such as basic vehicles and aircraft that heretofore have been Polish "specialty" products.

Because of their precarious financial situation, Polish defense firms have shown little interest in importing foreign equipment. The defense industry is searching for new export markets, particularly in the Third World and Middle East, hoping that the relatively low cost of Polish products, particularly tanks, armored vehicles, artillery, ships, aircraft, and helicopters will be attractive to potential customers.. Under existing present regulations, the Foreign Ministry maintains a closely held "black list" of countries to which Polish firms may not export. The list is modified regularly to reflect the government's perceived political interests. As a result, manufacturers claim they have lost contracts worth \$75 million in Iraq and Yugoslavia alone.

Defense Opportunities

Although military budgets have been stagnant or have shrunk in recent years, there are defense opportunities that do exist for U.S. firms. The Government of Poland has identified membership in NATO as its top foreign policy goal. Recent Partnership for Peace exercises have been held in Poland and increased visibility for the Polish military, and it is certain that Poland will continue efforts to join NATO. Obviously, much work will be needed to upgrade Polish military equipment to meet NATO standards, but the Government of Poland has not yet made public any policies or plans for such upgrades. Pending NATO membership has already had implications for other equipment related decisions, however: In one recent example Defense Minister Piotr Kolodziejczyk refused to buy the L-22 Iryda aircraft, because it is outdated, too expensive and does not comply with NATO standards.

Information on new systems is not available, as the Government of Poland is not open about its plans for future weapons systems. Until recently, the Polish Government also has not been forthcoming with information about its plans for future procurement and modernization.

In August 1994, the Polish Government announced that it will finance three strategic military programs. The government will provide several hundred billion Polish zloty (approximately \$10 to 25 million) to the Scientific Research Committee for research aimed at the development and modernization of the "GORYL" tank, the "HUZAR" helicopter, and anti-aircraft guns. The MOD is also debating whether to add anti-tank missiles and torpedo systems to this program.

Currently, Polish manufacturers produce only the HUZAR and several are currently in service within the Polish Air Force. In the future, the HUZAR will be equipped with "intelligent" anti-tank missiles with a range of 8 km and a new direction system. The Army has indicated it will require approximately 100 aircraft. In addition, Polish experts are currently working on an updated version of the GORYL tank, called the TWARDY, which is comparable to the Russian T-80 or the German Leopard 2.

The Government of Poland has also announced plans to modernize its air fleet. Although domestic manufacturing interests pressured the government to buy a modernized version of the Polish model known as Iryda (made by the WSK PZL Mielec S.A.), the Supreme Court has ruled that the Ministry of Defense may procure the products it believes best fulfill its requirements. The Air Force, therefore, is currently looking at the F-16, Mirage 2000 and the Saab Gripen fighter aircraft.

PZL Mielec, in the meantime, is attempting to generate support for the upgrade of the Iryda, a training and fighter jet. A number of foreign firms have been involved with various aspects of the project, but it seems unlikely to be funded.

Defense Procurement Process

Currently, military equipment purchases are often based on the needs of Polish industry. Purchases of foreign equipment tend to be done on a "sole source" basis, without a formal tendering process. Foreign equipment sales in Poland frequently include co-production or joint venture agreements. The following is a list of useful contacts regarding the procurement process.

Ministry of Defense
ul. Klonowa 1
Warszawa
Minister Stanislaw Dobrzanski

Deputy Minister Jan Kuriata - Armaments
and Infrastructure
A1. Niepodleglosci 218
Warszawa
Tel: 011-48-22-25-13-75

Fax: 011-48-22-25-21-52

Col. Boguslaw Smolski
Director, Research & Development
Office of the Minister of Defense
A1. Niepodleglosci 218
Warszawa
Tel: 011-48-2-684-46-07

A new public procurement law went into effect on January 1, 1995. This law will apply in all cases where public money is used to procure commodities, services and construction works. The law's procurement procedures need not be followed for purchases less than approximately \$25,000.

An amendment for defense procurement is in the drafting stages, as are a number of other procurement regulations. Although the Polish Government is making efforts to tender bids fairly and transparently, the lack of regulations, and the recent change in procedures, continue to make selling to the Government a challenge. Allegations of unfair practices occasionally surface. The U.S. Embassy continues to encourage transparency in Poland's procurement practices.

If the law passes, the purchasing agency can request that the commodity to be purchased contain at least fifty percent Polish content. In the case of services, the use of Polish labor can be required. An open tender procedure will be used as the standard. This office will have the authority to exempt purchases over \$250,000 from the open tender procedure. A two-stage

tender (request for offers and negotiations with targeted potential suppliers) would be used only in justified cases, such as a natural catastrophe.

In the past, major governmental projects and contracts in Poland have been reopened for examination and expanded bids. Governmental and quasi-governmental committees and consultants were set up to analyze and review major projects and consider bidders and their proposals. Revisions to proposals were requested. This often caused considerable questions and delayed projects.

Diversification/Commercial Opportunities

The government holds, and plans to retain, majority ownership in Poland's main defense manufacturers and there are no plans to ever fully privatize them. While these companies account for about 70 percent of the needs of the Polish armed forces, none of them currently produce defense articles only. Several of these plants have already entered into co-production ventures with foreign firms, including U.S. firms, for the production of defense articles and could be expected to be open to similar arrangements with other U.S. firms.

As mentioned above, no Polish defense manufacturers produce defense articles only. These plants also manufacture a wide range of equipment, including aircraft engines and components, automotive/diesel engines and subassemblies, forgings, air traffic control and navigation related equipment, electronics, tools, golf carts, appliances, agricultural equipment, and wheel chairs.

Many of these areas are also best prospects for the Polish market. US&FCS/Warsaw has identified the following defense-related industries as best prospects for the Polish market:

Aircraft and Parts
Telecommunications Equipment
Computer Software
Medical Equipment
Automotive Parts
Laboratory and Scientific Equipment
Broadcasting Equipment
Pollution Control Equipment

The following is a list of contacts in key non-defense Ministries for dual/use and or commercial goods.

Ministerstwo Wspolpracy Gospodarczej z
Zagranica
(Ministry of Foreign Economic Relations)

Pl. Trzech Krzyzy 5
00-507 Warszawa
Tel: 011-48-2-693-58-58

Fax: 011-48-2-628-68-08

Contact: Mr. Zbigniew Kubacki

U.S. Desk Officer

Ministerstwo Spraw Zagranicznych
(Ministry of Foreign Affairs)

Al. Szucha 23

Warszawa

Minister Dariusz Rosati

Tel: 011-48-2-628-16-78

Ministerstwo Przemysłu I Handlu
(Ministry of Industry and Trade)
Department Wspolpracy z Zagranica
(Foreign Cooperation Department)

ul. Wspolna 4

00-926 Warszawa

Tel: 011-48-2-628-21-41

Fax: 011-48-2-628-17-58

Contact: Mr. Janusz Zgorzynski, Director
00-926 Warszawa

Mr. Roman Czerwinski
Deputy Minister for Defense Affairs
Tel: 011-48-22-29-06-52

Col. Jerzy Kade, Director
Department of Defense
Room 5083, 5th Floor, ext. 8609
Tel: 011-48-22-29-84-37

Ministerstwo Przekształcen
Własnościowych
(Ministry of Privatization)
ul. Krucza 36
00-950 Warszawa
Tel: 011-48-2-628-02-81, 628-11-90
Fax: 011-48-2-625-11-14

Ministerstwo Transportu I Gospodarki
Morskiej
(Ministry of Transportation and Maritime
Economy)

Department Transportu Samochodowego
(Motor Transport Department)

ul. Chalubinskiego 4/6

00-928 Warszawa

Tel: 011-48-22-24-04-00

Fax: 011-48-22-30-00-62

Ministerstwo Gospodarki Przestrzennej I
Budownictwa

(Ministry of Physical Planning and
Construction)

Department Urbanistyki I Gospodarki
Miejskiej

(Department of Town Planning and
Municipal Engineering)

ul. Wspolna 2

00-926 Warszawa

Tel: 011-48-2-661-80-35

Fax: 011-48-2-628-40-30

Contact: Mr. Henryk Jedrzejewski, Director

Ministerstwo Ochrony Środowiska,
Zasobów Naturalnych I Leśnictwa
(Ministry of Environmental Protection,
Natural Resources and
Forestry)

Department Wspolpracy z Zagranica
(Foreign Cooperation Department)

ul. Wawelska 52/5400-922

Warszawa

Tel: 011-48-22-25-11-33

Fax: 011-48-22-25-33-32

Contact: Mr. Leszek Banaszak, Director

Ministry of Telecommunications

Department of Technology and
Development
ul. Chopina 1
Warsaw
Tel: 011-48-2-628-53-11
Fax: 011-48-22-21-71-09

Ministry of Health
Miodowa 15
00-251 Warsaw
Tel: 011-48-22-31-34-41
Fax: 011-48-22-26-09-66

Doing Business in Poland

Because the market is young, diverse and rapidly developing, no factor or single set of factors will consistently influence a company's ability to sell its product in the Polish market. Certain patterns, however, are becoming apparent about the Polish business person and consumer.

The Polish market consists of a number of regional, and local markets. For example, Poles living along the Baltic and to the West, closer to Europe, have different views and are influenced differently than Poles in the industrial south of the country.

Letters, faxes, and packages of product literature will introduce a Polish company to a product or service. However, a Polish customer generally will not consider making a final purchase until he has met with the vendor face-to-face about the product. Product demonstrations are also effective. This underscores the fact that in order to be successful in Poland, a U.S. company must have a representative in-country, whether it is an agent, distributor, or representative office. The Polish customer will want to discuss the technical parameters of the product, explain his needs, and negotiate the price. In addition, the product may not be sold in the first meeting, as the customer will want some time to further consider the points discussed and to try to arrange financing. Small, single first orders are usually the result, as major initial orders are unlikely due to limited amounts of working capital and high rates of interest on credit.

Polish customers are generally enthusiastic about U.S. products and, if seriously interested, will travel across the country to meet with a U.S. representative who may be visiting Warsaw. This is an important point and should be recognized. If a customer has driven five hours from Krakow to Warsaw to meet with a U.S. company, the potential for a sale is good. If the proposal is well thought out, the pricing is flexible (or assistance with locating financing is offered), and servicing and customer support are part of the package, chances are good that a contract will ultimately be written. Doing business in Poland is built upon personal relationships

and trust. U.S. companies still have an advantage in Poland, as the U.S., its people, and its products are held in high regard.

Foreign Investment/Privatization

Laws on privatization, customs, taxes, and foreign investment are in place in Poland, and follow-up amendments have theoretically reduced bureaucracy and government interference, modified tax incentives, and terminated restrictions on profit repatriation. Past needs for permission to establish operations, representative offices and joint ventures with Polish private partners have been reduced or eliminated. Where a permit is still necessary, the application process, though still cumbersome and tedious, has been simplified.

Customs duties apply to all products imported into Poland. Tariffs range from 0 (zero) to 90 percent, with the average between 8-12 percent. A 5% import tax is levied on all imports, and a general 22 percent Value Added Tax (VAT) is levied on all transactions. Significant excise taxes apply to certain luxury and strategic (satellite dishes, automobiles) products as well.

EU Association Agreement

The March 1, 1992, enactment of the trade provisions within Poland's association agreement with the European Union lowered or eliminated tariffs on many EU products imported into Poland, while tariffs on U.S. products remained unchanged. This immediately placed U.S. firms at a competitive disadvantage with their EU competitors.

In general, the trade of goods and services is not restricted in Poland. In some areas, including imports of strategic goods (e.g. police and military products, radioactive elements, weapons, transportation equipment, chemicals), a license or concession is required.

Certain goods are subject to import quotas in Poland. These include gasoline, diesel fuel and heating oils, among others. Imports of some products are prohibited. These include two stroke engine cars; automobiles, racing cars and vans older than ten years and trucks older than three years.

Export Licenses

A U.S. export license is required on shipments of certain commodities to Poland, as provided under the Commerce Department's Bureau of Export Administration's Commodity Control List. Import documentation in Poland is compiled under a "Single Administrative Document" (SAD), and includes a customs declaration and certificate of origin. The SAD asks about 60 questions regarding the goods, importer, place of origin, and method of payment. A completed customs value declaration is attached to the SAD. An original invoice or pro forma invoice proving the value of the goods is also required. The Ministry of Foreign Economic Relations issues import permits and concessions, and regulates quotas. However, other Polish

ministries have special jurisdiction over products such as tobacco (Ministry of Agriculture), permits related to air, sea, or road transport (Ministry of Transportation), or natural resources (Ministry of Environmental Protection). The list of products requiring import certification in Poland is always subject to change, and appears to be growing. U.S. exporters should ascertain whether their products require import certification in Poland before shipment.

In most cases, before an issuing ministry grants import permission for a product, the product must be reviewed and recommended for import into Poland by one or more inspectorate or technical associations, depending on the nature of the product. This can be a costly, lengthy and confusing process for the U.S. exporter and the Polish importer alike. It is often necessary to submit samples of products or equipment for testing, regardless of the issuance of previous U.S. or international certificates. The presentation of detailed documentation on a product is a must, and all requests by relevant inspection agencies should be strictly adhered to, in order to speed-up certification procedures.

When satisfied, the inspecting agency will make a positive or negative recommendation for the import to the appropriate Polish ministry. Once a specific product is approved for importation, further import of that product are free from additional regulation. U.S. companies with several lines of similar products (e.g. pharmaceutical, food preparation, or chemical products) should begin the approval procedure on all products they expect to export to Poland as early as possible.

Standards for imported products vary widely. Basically, imported goods are required to meet not only international standards, but specific Polish standards as set forth (and sometimes published) by the appropriate Polish government inspectorate. Conformity with ISO 9000 procedures is, as yet, relatively rare, though a number of Polish companies are, in fact, certified.

Some products, once imported, also require registration. This is particularly true of products that come into contact with, or can affect the health of the consumer. In the case of hazardous materials, the importer must receive permission to use the product before applying for a concession to import the product into Poland.

U.S. Government Points of Contact

The following is a list of useful contacts for U.S. firms interested in the Polish market.

U.S. Embassy

U.S. & Foreign Commercial Service
Maria Andrews, Senior Commercial Officer
Rebecca Mann, Commercial Officer
Unit 1340

APO, AE 09213
-or-
Al. Jerozolimskie 56 C
00-803 Warsaw
Tel: 011-48-2-625-4374
Fax: 011-48-2-621-6327

Security Assistance Office
LTC. George Kuk, U.S. Army
Chief
SSG Thomas Nowak, U.S. Army
Operations NCO

American Embassy Warsaw
Unit 1340
APO, AE, 09213
-or-

Al. Ujazdowskie 29/31
Warsaw
Tel: 011-48-2-628-3041 ext. 2237
Fax: 011-48-2-625-3478

Eastern Europe Business Information Center
U.S. Department of Commerce
Washington, DC 20230
Tel: 202-482-2645
Fax: 202-482-4473

Host Country Trade Associations:

American Chamber of Commerce in Poland
36 Swietokrzyszta
Entrance 1 Room #6
Warsaw 00-116
Tel: 011-48-22-209-867, ext. 222/223
or 011-48-22-209-962, ext. 222/223
Fax: 011-48-2-622-5525

POLSPACE Ltd.
ul. Bartycka 18a
Warsaw
Contact: Prof. Janusz B. Zielinski
Tel: 011-48-22-40-37-66
Fax: 011-48-22-40-31-31

AFCEA
Armed Forces Communications and
Electronics Association

Polish Section
ul. Czackiego 3/5
Warsaw
Tel: 011-360-90-50
Fax: 011-36-94-44
Contact: Prof. Dr Habinz.
Marek Amanowicz - President
Polish Chamber of Commerce
ul. Trebacka 4
Warsaw
Tel: 011-48-22-26-00-17, 26-01-43

Headquarters Defense Command/Security
Oslo Mil/Huseby
0016 Oslo, Norway
Tel: (47) 22 49 80 80
Fax: (47) 22 49 83 12

Norwegian Defense Research Institute
(NDRE)
P.O. Box 235
2001 Kjeller, Norway
Tel: (457) 63 80 70 00
Fax: (47) 63 80 71 15

PORTUGAL

PORTUGAL

Overview

Portugal offers a steadily expanding market for U.S. goods and services. Ground floor opportunities are available for companies willing to establish themselves by offering quality products, competitive pricing, and after-sales service. U.S. firms should not be put off by the apparent small size of the market. U.S. exports to Portugal are roughly double the official figure. Many American firms indirectly export to Portugal through distribution channels in other EU countries for tax and logistics reasons.

With government incentives, Portugal is an attractive market to invest in production facilities. With access to the EU countries, it is a good place to establish distribution facilities.

Defense Industry Environment

The Portuguese military has experienced recent declines in both personnel and spending. Although nominal spending shows an increase, real buying power is down and is holding at less than 5% of the national budget. Because Portugal is in the lower income category of the European Union (EU), it has been the recipient of financial assistance for most major acquisitions and will continue to try to utilize these programs to the greatest extent possible in the future. Forecasted defense spending in 1996 is approx. US \$2.87 billion. This is 2.59 percent of the GNP and represents a minimal increase over 1995 spending, but almost 15 percent over 1994 spending. Almost 10% of the 1996 defense budget, or approximately US \$280 million, is earmarked for procurement.

The domestic defense industry consists primarily of state owned manufacturing firms and several private firms that markets defense products throughout the world. Defense related business has decreased in size and importance in recent years, but is still active. The two state-owned manufacturing companies are:

- *Industria Aeronautica de Portugal, S.A., (OGMA)*
2615 Alverca, Portugal

OGMA overhauls and repairs both civil and military aircraft, engines, accessories, avionics, and ground equipment. Current cooperative production arrangements at OGMA include a Lockheed service center for work on Hercules (C-130) aircraft, Litton aerospace products repair station for maintenance of inertial platforms, and an Allison Gas Turbine Division authorized maintenance/overhaul center. OGMA should be considered a potential area to meet offset requirements for any commercial military or aeronautical sale.

- *Industrias e Participacoes de Defesa, SA (INDEP)*

Rua Fernando Palha, AP 8106
1802 Lisboa, Portugal

This joint-stock company is undergoing a 50% privatization. INDEP studies, develops, produces, tests, overhauls, and trades in defense products. Management is demonstrating an increased interest in cooperative and non-military/dual use programs.

Foreign Defense Suppliers

The Portuguese military is completing a recent modernization program with the financial assistance of the U.S. and European countries. Three new frigates, 20 F-16 aircraft, and substantial amounts of tanks, armored personnel carriers, air defense artillery, and other Army assets have been provided to the Portuguese military through grants, loans and offers of NATO excess equipment. Countries which have sold or provided major equipment to Portugal are:

- *United States:* Shipboard systems (torpedoes, missiles, gas turbine engines, gun systems), combat aircraft (A-7 & F-16), patrol aircraft (P-3), logistic aircraft (C-130), and nearly all Army systems and armaments.
- *Germany:* Combat aircraft (Alfa Jets), ship hulls, and diesel & mechanical platforms.
- *France:* Helicopters (Puma & Alouette), and shipboard gun systems.
- *United Kingdom:* Shipboard helicopters (Super Lynx).
- *Netherlands:* Shipboard combat data systems.

Defense Opportunities

New Systems, Upgrades, Logistics

In order to stretch limited budget resources, new systems acquisitions will be tightly controlled, with financial incentives remaining a key part of any negotiation. There will be an ongoing need for logistics support, in addition to periodic planned upgrades. Major planned or desired acquisition and upgrade projects are listed below by service:

- *Army:* Air defense, helicopters, light artillery, and electronic warfare equipment.
- *Navy:* Mine warfare, missile system improvements, shipboard self defense systems, equipment upgrades for marines, hydrographic/ oceanographic outfitting for new ship conversion, and communication enhancements.
- *Air Force:* New squadron of F-16 aircraft, mid-life upgrades to the current squadron, and

AMRAAM missiles; ground radar upgrade, ELINT, self protection suites for aircraft, and SAR helicopters.

The MOD defense plan is to provide for the external defense of Portugal's territorial areas, to contribute to European defense by maintaining NATO and WEU force structures, and to stay involved with former Portuguese colonies in Africa and with Brazil. This plan provides the basis for these procurements.

Bid Procedure and Key MOD Points of Contact

While major acquisitions will be the responsibility of the MOD, the Services generate requirements which are submitted for approval to Parliament. Once approved, the Services, with supervision and control over major programs by the MOD and Parliament, will execute the budgets. Contracting and negotiation are generally an open bid process with intense negotiations usually occurring after preliminary bids are received. There are no barriers to U.S. companies desiring to do business with the MOD but there will be continuing pressure by the EU to buy from within Europe. There are contracting offices within the Services for different types of procurements; however, the first point of contact for discussion of requirements and potential interest in new products will be the logistics divisions at each of the Service's headquarters:

MOD

Director Nacional do Armamento E Equipmento
Ministerio da Defesa
Avenida Ilha da Madeira 1
1400 Lisboa, Portugal

Army

Chefe de Divisao de Logistica
Estado-Maior do Exercito
Rua Museu de Artilharia
1100 Lisboa, Portugal

Navy

Chefe de Divisao de Logistica
Estado-Maior Da Armada
Praca Do Comercial
1188 Lisboa , Portugal

Air Force

Chefe de Quarta Divisao (Logistica)
Estado-Maior da Forca Aerea
Avenida Leite de Vasconcelos
Alfragide 2700 Amadora
Portugal

Diversification/Commercial Opportunities

Privatization of Defense Industries

The Portuguese Privatization Program, now into its eighth year, has been an unqualified success. Forty six companies have been partially or fully privatized. The Government of Portugal has announced the privatization of twenty more companies in the industrial, financial and service sectors for 1996 and 1997. The Government of Portugal estimates that it will obtain revenues of US \$2.5 billion in 1996 and US \$ 2.1 billion in 1997 from privatization.

Dual Use and Related Technology

Given the spending of the EU and the Portuguese Government, coupled with those industrial sectors in which U.S. companies have a clear technological advantage, the following areas would be the most attractive for U.S. companies:

- Telecommunications;
- Pollution control equipment/waste management;
- Energy conservation;
- Medical equipment and health management systems;
- Computers and peripherals;
- Software
- Franchising

U.S. firms interested in selling in Portugal generally start by appointing an agent or a distributor. This may be followed by the establishment of local facilities through wholly owned subsidiaries, joint ventures, or franchising. Most marketing techniques valid in other EU countries apply to Portugal, as well.

Points-of-Contact at Key Non-Defense Ministries

The Procurement Department at the Ministry of Finance authorizes the purchase of all Ministries, except those necessary for daily operation. In the latter case, the Secretary-General at each Ministry is the authorizing officer.

- *Ministry of Finance*

Dra. Graca Almeida Hespanha
Secretaria-Geral
Ministerio das Financas
Av. Infante D. Henrique 5
1100 Lisboa, Portugal
Tel: (351-1) 8884675
Fax: (351-1) 8885111

Dr. Issuf Ahmad
Director-General
Direccao-Geral do Patrimonio de Estado (Procurement)
Ministerio das Financas
Av. Elias Garcia 103
1050 Lisboa, Portugal
Tel: (351-1) 7932933
Fax: (351-1) 7967699

- *Ministry of Economy*

Dr. Antonio Joao Campo Rodrigues
Secretario-Geral
Ministerio da Economia
Rua da Horta Seca 15
1200 Lisboa, Portugal
Tel: (351-1) 3465183
Fax: (351-1) 3475901

- *Ministry of Environment and Natural Resources*

Dr. Mario Pinho da Cruz
Secretario Geral
Ministerio do Ambiente e Recursos Naturais
51 Rua do Seculo
1200 Lisboa, Portugal
Tel: (351-1) 3462751
Fax: (351-1) 3472036

- *Ministry of Health*

Eng. Antonio Jose Silveira
Director-Geral

Direccao Geral Instalacoes e Equipamentos de Saude
Ministerio da Saude
Av. da Republica 34, 3
1050 Lisboa, Portugal
Tel: (351-1) 7966044
Fax: (351-1) 7939770

- *Ministry of Planning, Public Works and Transportation*

Dra. Joana Candeias Araujo
Ministerio do Planeamento, Equipamento Social e Transportes
Rua da Prata 8, 4
1100 Lisboa, Portugal
Tel: (351-1) 8812500
Fax: (351-1) 8812590

Doing Business in Portugal

The Portuguese market is fully open to U.S. firms. American firms interested in selling in Portugal should start by appointing an agent or a distributor with good contacts in both the Government and private sectors, to be followed by the establishment of local facilities through wholly owned subsidiaries or joint-ventures. Most manufacturers and exporters are represented in the market through exclusive importers/distributors, who may appoint sub-distributors and dealers. U.S. firms with EU-based offices are in a good position to participate directly in all international tenders. However, teaming with a Portuguese partner whenever possible is highly recommended.

Export and Customs Requirements

Since May 1988, Portugal has adopted EU directives regarding exports. Portuguese exporters are required to obtain an export declaration before they ship their merchandise. The export declaration is used for Portuguese Customs purposes.

Portuguese Customs has recently approved the implementation of simplified export regulations. This allows authorized exporters and express mail operators to export merchandise directly from their establishments. They are only required to present a commercial invoice to the Customs authorities.

Foreign Investment

Foreign investment is an essential part of the Portuguese Government's overall strategy to modernize the economy. A key objective of the government's 1994-1999 Regional Development

Plan (PDR) is to boost international competitiveness through increased foreign investment in transport, telecommunications, energy, agriculture, fisheries, and tourism.

A simple post facto registration regime for foreign investment took effect in Portugal as of December 4, 1995. The new regime responds to the need for simpler procedures in the new context (since 1992) of fully liberalized capital markets. Under the new regime, foreign investors need only register with the Foreign Trade, Tourism, and Investment Promotion Agency (ICEP) within thirty days from the day the foreign investment is made. The regime is designed to obtain administrative or statistical information and applies to all foreign investors, EU and non-EU alike.

Import Restrictions

Because Portugal is a member of the EU, most import rules and procedures have been liberalized. However, there are certain products which require import licenses called import certificates for strategic/dual use products. For dual use products, a certificate of delivery may be required. There are also some licenses required for imports of textile products and some industrial products from certain countries other than the United States. Applications for import licenses should be submitted to the General Directorate of External Commerce. Tobacco, alcoholic beverages, and automobiles are still subject to some import controls, generally resulting from bilateral agreements. Imports of these products from the United States have been restricted by import barriers, including duties.

Product Standards

Portugal follows closely the EU directives and, as a GATT member adopts the European Committee for Standardization (ECS) standards for a number of products, including low voltage electrical material, construction equipment/machinery, gas cylinders, boilers, and telecommunication peripheral equipment. If American exporters wish to be exempted from European security standards, they must demonstrate through a certifying entity that the products offered meet equivalent security standards.

Intellectual Property Protection

Consistent with the accession to the EU, the Government of Portugal published on August 30, 1991 Decree 52/91 which ratified the Munich Convention of European patents. Portugal passed a new Code of Industrial Property that took effect on June 1, 1995.

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Portuguese market.

U.S. Embassy

U.S. Foreign & Commercial Service

American Embassy

Avenida das Forcas Armadas-sete Rios

1600 Lisboa, Portugal

Tel: (351-1) 727-3300, ext. 2528

Fax: (351-1) 726-8914

For International Mail:

PSC 83 Box FCS

APO AE 09726

Daniel Thompson, Commercial Attache

Carmen Neves, Commercial Specialist

Office of Defense Cooperation

(same address as US&FCS)

Tel: 351-1-727-3300

Fax: 351-1-726-8913

For International Mail:

PSE 83

APO AE 09729

Contact: Chief, ODC: Col Jesse Perez (USA), ext. 2277

Chief, Army Section: LTC Joe Luz (USA), ext. 2251

Chief, Air Force Section: Maj Glenn Driggs (USAF), ext. 2256

Chief, Navy Section: Cmdr Toby Switzer (USN), ext. 2261

U.S. Industry Association

Dr. Henrique Brito do Rio

Secretary General

Camara de Comercio Americana em Portugal

Rua D. Estefania 155, 5th-E

1000 Lisboa, Portugal

Tel: (351-1) 3572561

RUSSIAN FEDERATION

RUSSIAN FEDERATION

Overview

The Russian defense industry is in the midst of several changes. These adjustments include a shift from production of military to commercial goods; the planned privatization of up to three-fourths of the industry; the restructuring of very large firms into an emerging mixture of holding companies, joint ventures, and small spin-offs; and a shift from isolation to full participation in the world economy. These changes are creating economic challenges for the firms and distress for many Russian cities and regions. At the same time, these changes may offer opportunities for American business.

Defense Industry Environment/Defense Conversion

The Russian defense industry is in a state of decline and disarray. Traditional sources of support -- the defense budget and orders from Soviet satellites -- have dwindled over the past 10 years, and new sources of income have not yet emerged. Most defense plants reside in very old buildings and rely on old equipment. Defense industry pay has not begun to match inflation, and many defense engineers and production workers are leaving defense firms to start small technology firms, operate kiosks, or drive taxis.

Historically, Russia spent over 20 percent of its gross domestic product on defense. In recent years, this figure has hovered around 5 percent of a smaller domestic product. The Russian Duma appears to have settled on a defense budget of about 40 trillion rubles (\$20 billion). The proposed budget also includes 18 trillion rubles (\$9 billion) for industrial support, much of which will go for defense conversion.

Russian defense figures are easily misinterpreted. Much defense budget money actually goes for civilian production and social services for defense workers. Most defense plants and defense bases receive hidden subsidies from regional and city governments in the form of free land, electricity, food supplies, and other services.

The Russian defense industry consists of over 2,000 firms and employs 6 to 8 million workers, about one quarter of the Russian industrial labor force. The Russian defense industry is concentrated in twelve cities and regions, where over one-third of the labor force works in defense. The industry needs modernization and many defense enterprise managers are eager to learn about the basics of marketing, finance, and modern business practices.

A Russian defense plant is also, in some ways, a throw-back to a U.S. factory town. The defense plant is really a mini-city in itself, with its own apartments, doctors, clinics, restaurants, and power plants. Outside of Moscow and St. Petersburg, defense plant employees usually live

in company apartments, shop in company stores, and eat in company cafeterias. Up to 80% of a defense plant's budget goes to maintenance of these social services. The plant manager is often as concerned with making deals to bring in potatoes and bread to feed his people as with joint venture agreements.

Most Russian defense enterprises would be considered bankrupt in Western terms. Russian defense plants have lost nearly 80% of their funding from the Russian government in the past ten years. Defense orders dropped markedly and production dove by 50 percent, just in the last two years. At the same time, defense plants have lost export earnings due to loss of Soviet bloc markets, cuts in Russian aid to Libya and Iraq, and declined in size of the world arms market. Arms exports have dropped by over 70 percent since 1990.

Plant managers often maintained production without budget authority to keep workers busy. This has led to an excess inventory of weapons, which plant managers try to sell. Uncertainty in the Russian budget has prevented most Russian defense enterprises from consistently paying their workers or their debts. Some are months late in paying salaries. Many defense plants reduced operations to only a few days per week. Russian defense industry wage increases have not kept pace with inflation, meaning that most Russian defense enterprises are steadily losing their best workers (estimates range from 800,000 to 1 million lost per year) to Western companies or the emerging Russian private sector.

The Russian Government strategy has been to target Western assistance and limited budget funds to a small number of key, technology-rich research and design institutes. Prime Minister Chernomyrdin has indicated that he will now permit unprofitable firms to go bankrupt, though last minute bailouts will probably still occur.

Social and economic change has brought with it changes in the structure of the defense industry. Under the old Soviet system, the defense industry consisted of three tiers. At the top were the elite research institutes; the next tier included the design bureaus; the third and the largest were the manufacturing enterprises. One hundred final assembly plants (80 with over 10,000 workers, 20 with over 25,000 workers) were the largest in the sector. To cope with new economic conditions, many newly-privatized Russian defense enterprises are joining forces in industry groups or holding companies. Examples include the Leninets Holding Company in St. Petersburg, the Arsenal Holding Company in Tula, and the Tupolev Joint-Stock Company in Moscow. Many defense engineers have left defense firms to found their own companies or have started mini-enterprises within the confines of the old firm.

Nearly all Russian defense equipment is produced by domestic firms. In the recent past, Russia was a part of the Soviet bloc military-industrial complex, with interrelated units throughout Eastern Europe and the former Soviet Union. Today, most supplies and equipment are produced within Russia, with limited purchases from other NIS and Eastern European nations. Historically, Russian defense firms have always sought and managed to acquire Western military and dual-use technology. This interest can be expected to continue, with

limited commercial purchases sometimes substituting for espionage. The Department of Commerce, through the Bureau of Export Administration has published several editions of the Russian Defense Business Directory, which provide more detailed information on the major Russian defense firms.

Pure defense opportunities in Russia for U.S. firms are very limited. The Russian government intends to use limited defense funds to maintain Russian defense capabilities and is unlikely to invest in weapons systems from the West. Some opportunities exist through U.S. Government aid programs that help the Russian military dispose of weapons.

A large market for U.S. defense firms involves assisting the Russian military and government to safely dispose of nuclear, chemical, and biological weapons and prevent proliferation of Russian weapon technology. There is some U.S. Government money available to help in this effort. Specific activities include:

- Destruction of nuclear weapons
- Improvements in nuclear weapon security and accountability systems
- Safeguards against weapons proliferation

Another potential service is education and training. Russian industrial managers and military leaders are anxious to learn about the management and manufacturing methods of the West.

Many of the Russian Ministry of Defense's major new initiatives are commercial, not military. Major projects within the Russian defense sector are listed below.

- Next generation commercial airliners: Ilyushin and Tupolev are developing a new generation of commercial airliners for NIS and global markets.
- Merchant Marine: Russian shipyards are re-equipping the Russian oil tanker and cargo vessel fleet.
- Telecommunications 50 by 50 project: Russian defense firms are building equipment for a major upgrade of Russian telecommunications system.
- Global Navigation System: Russian defense firms are working on a global satellite system to improve aircraft navigation across Asia.
- The U.S.-Russia space station: Russian defense firms are preparing to work with American partners on a joint space station.

Russia has defined a new role for itself as a peacekeeper in Russia's near abroad or neighboring republics of the former Soviet Union. The Russian military is attempting to regain

military potency with dwindling financial resources. With this change, the Russian military is shifting strategies and doctrine. First, the military is deferring new production to focus on systems upgrades and research. Second, the military is shifting from military-only research to dual-use technology research that will benefit the Russian economy. Third, the Ministry of Defense is seeking to initiate the creation of about 30 defense-industrial-financial conglomerates that would produce both military and civilian high technology equipment. Finally, the military is moving beyond its prior emphasis on weapons procurement to focus on improvements in weapons maintenance, information processing and battle management.

The Russian Defense Ministry has procurement procedures similar to the United States. Information about procurements is becoming more readily available. With many Russian defense factories idle, the Russian Ministry of Defense is unlikely to give major defense contracts to non-Russian firms.

Diversification/Commercial Opportunities

Despite a challenging economic and political environment, the Russian market offers a variety of trade opportunities for U.S. firms.

Telecommunications Equipment

The Russian telecommunications market suffers from a lack of installed lines, outmoded switching equipment, and inadequate revenues to finance investment. Over \$1 billion of telecommunications equipment was sold to Russia in 1995, but only ten percent was of U.S. origin. The Ministry of Communications is dedicated to bringing the telecommunications infrastructure up to international norms as quickly as possible and many multinational firms are looking for the opportunity to help in this undertaking. Undoubtedly, very large investments will be made, with much of the capital and equipment provided by foreign firms. Demand, political will, and interest from foreign investors have coalesced around telecommunications, virtually ensuring that significant agreements will be reached over the next eighteen months.

Medical Equipment

Because domestic medical equipment production can meet only 40% of total demand, imports play a significant role in the market. Government purchases of foreign medical equipment are usually financed by foreign loans, foreign credit lines, and internationally-sponsored development projects. The Ministry of Health and Medical Industry no longer makes centralized purchases. Instead, regional health authorities, or hospitals whose funding is at least partially provided by local companies, are the principal buyers. In some cases, large manufacturing enterprises have become active purchasers for their own hospitals, clinics, and medical units. The most promising subsectors are radiology, diagnostic equipment, laboratory equipment, dental equipment, and test kits.

Privatization

The Russian Government plans to privatize three-fourths of its more than 2000 defense enterprises by the end of 1994. About 700 of Russia's defense enterprises have already been privatized. About 450, mainly research institutes and design bureaus, will remain government-owned. Many talented Russian scientists and engineers are setting up spin-off companies to market commercial applications of defense and other technologies. To survive as privatized firms, most Russian defense enterprises will need Western management help, investment, and cooperation. With encouragement from the U.S. and Russian governments, many Russian defense enterprises are seeking Western investors and partners.

Some U.S. Government funding is available to support joint ventures between U.S. and Russian partners and information on these funds will be included in the section on points of contact.

Market Prospects

The Russian economy is plagued by decaying infrastructure, severe environmental problems, insufficient housing, and shoddy consumer goods. To address these tremendous challenges, the Russian government has been trying to convert defense plants to produce civilian products. During the Gorbachev era, specific defense sectors were directed to focus on specific commercial sectors. For example, biological weapons plants were told to focus on medicines. The Yeltsin Government approach is to use Government credits to encourage defense plants to shift toward priority sectors.

Russian defense firms, while stronger in engineering and manufacturing, often lack expertise in marketing, management, and financial analysis and control. Most lack understanding of how to set prices and determine the unit costs of products. Many require help in designing and marketing products to respond to the demands of Russian and other consumers. U.S. firms could work with spin-offs of Russian defense firms to jointly produce goods for Russian and NIS markets. Although short-term barriers to such cooperation are numerous, some long-term potential for such joint ventures may exist for several reasons.

- *Low manufacturing costs:* Russian defense enterprises operate at costs considerably lower than Western ones. Russian defense enterprises often pay their engineers \$100 or less each month. While these enterprise may not technically own their own property, they may assert some management control over it. These facilities often include power supplies, transport systems, hotels and apartments, and water supplies.
- *Pockets of superior technology and expertise:* To a visiting Westerner, Russian defense plants usually appear to be poorly maintained and hopelessly outmoded. Russian

technological and industrial development took place in isolation from the West, along parallel though dissimilar lines. As a result, in most technological areas, particularly electronics and computers, Russian scientists are well behind their Western counterparts. At the same time, operating independently, Russian scientists and engineers developed unique approaches and capabilities still unknown to the West. Russian technological strengths identified by an interagency technology assessment group in 1990 include:

- Chemical/allied products
- Rubber and plastic products
- Primary metals
- Small nuclear power reactors
- Industrial/commercial machinery
- Electronic components
- Transportation equipment
- Photographic, medical, and optical instruments
- Space launch and payload services
- Metallurgy
- Aerospace
- Lasers and optics
- Software Design

- *Market Access:* Working with a Russian defense firm is one way U.S. firms can attempt to gain a toe-hold in Russian and NIS markets. Defense firms are becoming more adept at marketing and they have access to vast networks of suppliers and sub-contractors within the Russian defense establishment. Many also have political connections and clout that can help to reduce barriers to trade and eliminate government obstruction.

On paper, the Russian Government has developed a defense conversion plan and selected 14 areas for conversion efforts. Thus far, the government has allocated a mere \$3 billion to stimulate this conversion process. In these areas, Russian defense firms will need Western products and technology to succeed in conversion efforts.

- **Civil Aviation:** Russian manufacturers need Western engines and avionics to bring the Russian civil fleet up to world standards.
- **Civil Shipbuilding:** Russian shipyards need to build oil tankers, fishing trawlers, cargo ships, and pleasure craft.
- **Oil and gas industry equipment:** Russian missile equipment and tank plants are now building oil drilling pumps, excavation equipment, air compressors, and gas liquefiers.

- Housing: The Russian defense sector may begin to address Russia's severe housing shortages. Defense firms attempting this will need help producing homes, apartment buildings, internal equipment, and appliances.
- Consumer Goods: The Russian defense sector produces nearly all of Russia's televisions, video cassette recorders, and cameras, plus most washing machines and vacuum cleaners.
- Medicine and Medical Equipment: Defense plants produce 80 percent of medical equipment produced in Russia. Biological weapon plants are now converting to vaccine and medicine production.

Other high priority industry sectors include the following.

Food Processing
Textile Industry Equipment
Communications and Information Equipment
Timber Industry Equipment
Electronics
Pollution Control Equipment

US&FCS Moscow recommends that prospective exporters contact a relevant foreign trade association. A preliminary list is provided below.

- Aviaexport
Trubnikovskiy Per. 19, 121817, Moscow
Phone 290-0171, Fax 290-0171
Export and Import for Aircraft, Aircraft parts, and Avionics.
- Litsenzintorg
Minskaya Str., 11, 121108 Moscow
Phone 145-2700, Fax 142-5902
Technology Exchange and Transfer.
- Mashinoexport
Smolenskaya-Sennaya, 32/34, 121200 Moscow
Phone 244-3309, Fax 244-3807
Import of Oil and Gas Extraction and Refining Equipment.
- Mashinoimport
Mosfilmovskaya Str., 35, 117330 Moscow
Phone 147-1542

Doing Business in Russia

Doing business in Russia is not for the timid. Russia is a vast, largely unpenetrated, market. Opportunities abound, and so do barriers. For more than four decades after World War II, Russia was the central part of one of the world's two superpowers. Russia owed this status to its highly skilled population, its abundant natural resources, and the concentration of its resources on defense. For more than 70 years (some would say for centuries), Russia cut itself off from Western goods, Western ideas, and Western technology. With Gorbachev's Glasnost and Yeltsin's Perestroika, Russia has begun to open its markets to the West. The result is an unprecedented hunger for Western (and particularly American) products, technologies, and ideas. Though this demand continues unabated, the more than 400 U.S. companies entering this market have encountered difficulties.

A major cultural barrier is the Russian's lack of experience with a market economy. While informal "Rynoks" and black markets existed under the communists, most Russians do not understand the fundamental operations of a modern capitalist system. Western businesses will need to dedicate much time to explaining business planning, modern accounting, marketing, and contract law. U.S. business is rooted in the sanctity of contracts and legally based and enforced agreements. Russian business is based on personal relationships and a sense of the relative power and influence of potential business partners.

The major economic barriers are the many taxes and fees imposed by different levels of the Russian Government. These taxes are often contradictory and arbitrarily applied. While Western firms can avoid many of these taxes by following sound legal and accounting advice, constant tariff and tax changes and the inability to get information on the latest laws makes long-term profit projection difficult at best.

The major political barrier is the lack of consensus within the Russian Government that the movement toward capitalism and the attraction of Western investment is the correct course. While the Yeltsin-Chernomyrdin government is generally pro-reform, many political and bureaucratic leaders are reluctant to assist in what they perceive to be the selling off of their country to the West. Many promising Western investments are sidetracked by long delays in government approval and sudden changes in regulations. Russian contract, property, and intellectual property protection laws are still undeveloped and enforcement of existing laws is uneven.

In addition to these barriers, Western businesses also face a growing crime problem, a chronic scarcity of reliable information, and frustrating and formidable logistical problems. These barriers (and a fear of the unknown) have kept many Western businesses out of Russia.

The result is that those businesses that have learned to operate successfully in Russia are beginning to sell to a large and expanding market with comparatively little competition.

Listed below are suggested business strategies:

- Find a formal or informal Russian partner.
- Maintain good contacts with other Western businesses as well as national and regional government officials.
- Hire a good accounting and law firm to remain several steps ahead of constantly changing taxes and regulations.
- Develop a long-term strategy that gradually builds relationships and market presence.
- Make an investment in security protection for facilities and employees.

In the defense sector, a few Western firms have formed joint ventures with Russian defense firms or worked with spin-offs from Russian defense firms. The extensive social services provided by Russian defense firms and the large numbers of workers in unprofitable activities make nearly all old-style Russian defense firms very poor investment opportunities, however, even when fully privatized.

Other potential business strategies include:

- Selling U.S. components for use in Russian products
- Using Russian defense plants for final assembly of U.S. products
- Jointly redesigning U.S. products for Russian production for Russian and NIS markets
- Selling technical expertise to help Russian defense firms redesign their products for Russian and NIS markets

A few U.S. firms purchase Russian technology directly or provide research contracts to convert Russian defense technology for use in U.S. products.

U.S. defense firms, in particular, should be wary of Russian buyers seeking critical defense and other technology. Such buyers may request detailed product specifications, technical data, and/or the purchase or loan of single examples of high-technology products or components. Intellectual property law in Russia is not as well-respected or enforced as in the West. U.S. firms run the risk that Russian buyers will use U.S. technology to develop competing products, or may privately sell the U.S. technology to third parties.

Trade Barriers and Export Controls

Taxes: Russian taxes are usually high and fines for tax evasion can be steep.

- ▶ Russian tariffs average about 10 percent. However, tariffs on automobiles, alcohol, and tobacco products range from 35 to 150 percent.
- ▶ A value-added tax (VAT) is set at a standard rate of 23 percent. Presidential Decree 2270 of December 1993 eliminates the VAT on items imported into Russia that are part of the seed capital of new Russian enterprises.
- ▶ Excise taxes between 35 and 250 percent are applied to luxury goods, such as cars, jewelry, alcohol, and cigarettes.
- ▶ An export tax of about 20 percent is now levied on most exports.
- ▶ An enterprise profit tax ranges between 32 and 38 percent. Tax holidays and preferential rates exist for small or new businesses growing crops, making consumer goods, or constructing buildings.
- ▶ An individual income tax on worldwide income is set at 40 percent.
- ▶ Property tax may be up to 2 percent per year.
- ▶ Companies will need export licenses to export many raw materials.
- ▶ Foreign operations should be either registered or accredited in Russia. An accredited company can do business and sign contracts, but cannot engage in financial transactions. A registered company can engage in transactions.
- ▶ Companies with charter capital over 100 million rubles should also register with the Russian agency for international cooperation and development.
- ▶ Foreign firms located in Moscow need to obtain licenses from the city government.

Export controls

In the defense sector, U.S. companies must consider both Russian and U.S. regulations. The Russian export control decree provides for export control oversight over materials, equipment, and technology used to produce weapons, and civilian dual use materials and technologies that can contribute to missiles, nuclear, chemical, and other weapons of mass destruction.

The Department of State maintains a U.S. munitions list that identifies defense articles and services. U.S. firms participating in defense trade must register with the State Department's Office of Defense Trade Controls and seek approval for the export of any items on the munitions list. The Commerce Department's Bureau of Export Administration administers export controls on dual-use technologies. U.S. exporters are now permitted to ship some low-level dual use goods to civilian end users in Russia, under a license exception, without prior approval.

Other goods and technical data still require a specific license, or are not eligible for export. These are controlled due to their potential use in nuclear, biological, chemical, and other weapons. Controlled items include chemical weapons precursors, super computers, high-end computers capable of over 7 billion theoretical operations per second, and electronic equipment with potential military applications. U.S. exporters may not knowingly ship dual use goods to military end-users. U.S. companies should consult the Bureau of Export Administration before engaging in consultations or business transactions involving the export of controlled commodities or technical data.

U.S. Government Points of Contact

The following is a list of useful contacts for firms interested in the Russian market.

U.S. Embassy

U.S. & Foreign Commercial Service
Ul. B Molchonovka 23/28
121019 Moscow

John Peters
Senior Commercial Officer
Tel: 7-095-967-3414
Fax: 7-095-967-3416
Sat. Tel: 7-502-224-1105
Sat. Fax: 7-502-224-1106

St. Petersburg

U.S. & Foreign Commercial Service
American Consulate General St. Petersburg
S7 Bolshaya Morskaya

Patricia Gonzalez
Acting Principal Commercial Officer
Tel.: 7-095-119-6045
Fax: 7-095-213-6962

Vladivostok

U.S. & Foreign Commercial Service
American Consulate General Vladivostok
Mordovtseva 123, Vladivostok

U.S. Mailing Address:
American Consulate General
U.S. Dept. Of State
Washington, D.C. 20521-5880
Rich Steffens
Principal Commercial Officer
Intl. Tel: 7-501-4232-300-070 (Satellite)
Intl. Fax: 7-501-4232-300-072

Business Information Service for the newly
Independent States (BISNIS)
Room 7413
U.S. Department of Commerce
14th and Constitution Ave., NW,
Washington, DC 20230
E-Mail: bisnis@usita.gov

Tel: 202-482-4655
Fax: 202-482-2293
Flashfax: 202-482-3145

Defense Conversion

Bureau of Export Administration
Office of Strategic Industries
and Economic Security
Room 3878
14th & Constitution Ave., NW
Washington, D.C. 20230
Tel: (202) 482-3984
Fax: (202) 482-5650

Special American Business
Internship Training Program
15 Novinskiy Bulvar, Dom 15
121099 Moscow
Tel: 202-482-0073
Fax: 202-482-2443

In Russia:

Tel: 011-7-095-255-4848
Fax: 011-7-095-230-2101

Potential Funding Sources

U.S. Russia Investment Fund
17 State Street, 33rd Floor
New York, NY 10004

Tel: (212) 668-8395
Fax: (212) 668-0770

The Defense Enterprise Fund

Tel: (617) 261-1924

Fax: (617) 261-1935

Industry Association Contacts

American Chamber of Commerce
American Trade Center, Radisson Hotel
Berezhkovskaya Nab. 2, Moscow
Tel: 011-7-095-941-8435
Fax: 011-7-095-941-8437

St. Petersburg American Business
Association
Susan Kersch
Tel: 011-7-812-275-4587

St. Petersburg Joint Ventures Association
Plehanova St, 36, St. Petersburg
Peter Lebedev
Director
Tel: 011-7-812-312-7954
Fax: 011-7-812-315-9470

U.S. Russia Business Council
1701 Pennsylvania Ave., NW
Suite 650
Washington, D.C. 20006

SPAIN

SPAIN

Overview

The 1996 defense budget totaled 812,114 million pesetas (US \$6.5 billion), a 6 percent decrease over the previous year. There will be zero growth in 1997. Since 1984, the Spanish defense budget has followed a downward trend, falling from 2.1% of Spain's gross domestic product in 1984 to 1.2% in 1996. As a result of these successive budget reductions, the Spanish Armed Forces have been forced to delay or cancel almost all major weapons systems acquisition programs. It is not expected that the current defense spending levels will be increased during the coming three years.

The Spanish defense industry is also in a period of contraction and reorganization similar to the U.S., thus limiting the immediate opportunities for sale of U.S. defense equipment. Further complicating the situation is the Government's budget deficit, which has caused severe cutbacks affecting both defense and defense-related industries.

However, Spanish interest in and respect for American-made defense items remains high and U.S. firms should consider this hiatus as an opportunity to lay the groundwork for potential sales three or four years from now, when the Spanish budgetary situation may improve and Spanish military requirements are clearer.

The Government has given high priority to the privatization of its interests in the public sector which may present opportunities for U.S. companies. The government has identified which state-owned companies in Spain can be privatized and the specific approach needed for privatization. It is understood that the plan is to privatize most of the state-owned companies within the next four years.

Defense Industry Environment

Professionalization of the Spanish Armed Forces and Spain's full integration into NATO's military structure are top priorities of the current Government, elected in the Spring of 1996. The ensuing review of Spain's national defense needs and the identification of new missions may generate mid-term political support for a leaner, better trained military force, equipped with new, state of the art weapons. Any new acquisition needs will likely be presented to the public, not only in terms of their contributions to the national defense, but also in terms of the resulting employment and manufacturing opportunities for the Spanish economy. In 1995, the Spanish Armed Forces allocated the defense procurement budget among the Spanish military Services as follows: Army, (20 percent), Navy, (46 percent), and Air Force, (36 percent).

Traditionally, U.S. defense companies supplied the Spanish Armed Forces with all major weapons systems through the foreign military sales (FMS) program. Over the past 10-12 years, however, European defense companies, such as Aerospatiale, GEC-Marconi, and Alenia, have entered the Spanish defense market with the support of their respective Governments, and U.S. firms are faced with fierce competition for each and every sale. Spain has also looked to Israel to purchase specialized electronic warfare equipment.

The major Spanish defense companies are publicly-owned and controlled by the Ministry of Industry. The Spanish defense industry has undergone major consolidation since the national defense budget cannot support more than one major company per sector. During the period 1990-1994, the majority of Spanish defense companies have faced personnel layoffs, factory closures and, in some cases, have gone out of business.

Spain's defense industry has traditionally been dominated by four publicly-owned firms: BAZAN (naval construction), CASA (aerospace), Santa Barbara (armored vehicles, artillery, ammunition, and small arms), and INDRA (defense electronics). The military programs of these companies represent 75 percent of total defense industry sales and a similar share of employment.

Under existing regulations, foreign companies cannot acquire more than 25 percent interest in any Spanish defense industry company without Government approval, on a case-by-case basis, of an equity interest of up to 49 percent.

Traditional Domestic Suppliers of Defense Equipment

Aeronautics/Aerospace

- Construcciones Aeronauticas, S.A. (CASA)
- Aeronautica Industrial, S.A. (AISA)

Electronics/Radar/Communications

- Ceselsa; Guiado Y Control, S.A. (Gyconsa); Enosa; and Sociedad Anonima De Electronica Submarina (SAES) - all part of the Government owned INDRA group.
- Amper Programas De Electronica Y Comunicaciones, S.A.

Weapons and Ammunition

- Empresa Nacional Santa Barbara De Industrias Militares, S.A. (Santa Barbara)
- EDB
- Explosivos Alaveses, S.A. (EXPAL)
- Fabricaciones Extremenias, S.A. (FAEX)

Shipbuilding

- Empresa Nacional Bazan De Construcciones Navales Militares, S.A. (BAZAN)

Aeronautical Engines

- Industria De Turbopropulsores, S.A. (ITP)

Armored Vehicles

- Peugeot Talbot Espana, S.A.
- SBB Blindados, S.A. (SBB)

Defense Opportunities

The Spanish market does offer a variety of defense trade opportunities for U.S. firms. Potential upgrades, replacement or spare parts, maintenance, logistics, and service opportunities include the following programs:

Air Force

- F-18 Aircraft
- P-3 Aircraft - possible follow-on buy of 36 aircraft; possible mid-life upgrade
- C-130 Aircraft - purchase 2-6 aircraft
- Airborne Early Warning and Control System
- Advanced Medium Range Air-to-Air Missile

Army

- Chinook Helicopter upgrade
- M-60 Tank upgrade
- M-113 Armored Personnel Carrier upgrade
- 1.5 Ton Multi-Purpose Wheeled Vehicle
- Attack Helicopters
- Infantry Assault Rifle

Navy

- SH-60 Helicopter Block 1 upgrade
- Harrier AV-8B Aircraft - remanufacture of 11 aircraft

- F-100 Frigate Command, Surveillance, and Weapon Control Systems
- Mine-Hunters

The Services traditionally buy spare parts for U.S. weapons systems through the established FMS logistics follow-on support system; however, this market is not completely closed to U.S. commercial suppliers.

Defense Procurement Process

The principal decision making agencies involved in the weapons system acquisition process are:

- Military Service
- Ministry of Defense
 - Directorate of Armament and Material (Direccion General De Armamento Y Material)
 - Office of the Secretary of State for Defense (Secretario de Estado De La Defensa)
- Office of Industrial Cooperation (Gerencia De Cooperacion Industrial).

The Services are responsible for defining a requirement, developing the corresponding technical specifications, and making a technical recommendation regarding the weapon system which best satisfies the requirement.

Within the Ministry of Defense, the Director General De Armamento Y Material is responsible for defining the acquisition strategy to be used for each procurement and reviewing the service's technical recommendation. Final contract award authority resides with the State Secretary for Defense (Secretario De Estado De La Defensa) and, in rare cases, with the Defense Minister.

The Office of Industrial Cooperation also plays a crucial defense procurement role. In every large procurement from a foreign supplier, it establishes procedures that lead to either substantial technology transfer from the bidder to a Spanish company or an obligation to import from Spanish manufacturers. This office is also responsible for negotiating and approving proposed industrial cooperation plans.

The types of procurement methods used will vary according to the complexity of the purchase. Contracts for spare parts, for example, are announced in the Boletin De Defensa (Defense Bulletin), and are usually firm fixed price contracts. Major weapons systems procurement may require prolonged negotiations. There are no barriers to U.S. firms receiving solicitations. Generally, however, the Ministry of Defense will award a prime contract to a Spanish firm which, in turn, will subcontract with a foreign firm for technical support and/or components. While import tariffs are applied to defense material, in some cases U.S.

companies enjoy an advantage over European Union firms, since U.S. companies are not required to include the value added tax in their bids.

Because budgetary constraints force the Spanish Ministry of Defense to stretch out payments for needed equipment, creative financing alternatives will certainly enhance the competitiveness of American products. U.S. competitors are concerned that the U.S. may ease financing rules which would make U.S. defense products even more competitive.

Diversification/Commercial Opportunities

Companies such as CASA, INDRA and BAZAN in the defense sector are earmarked for privatization during the next four years. A large share of INDRA is already in private hands, such as the French company, Thompson, and the U.S. company, Hughes.

There are many opportunities arising from both public and private projects where Spanish firms would welcome partnerships with U.S. high technology defense companies. Spain is investing heavily in infrastructure projects which present major opportunities for U.S. defense electronics manufacturers. Projected investments in airport infrastructure to the year 2010 amount to Pesetas one trillion (US \$7.2 Billion). This investment will be used to carry out major upgrades in security, air navigation, and ground support equipment. Thus, there is demand for laser technology, infrared and night vision equipment, radar communication equipment, and specialized display devices.

Telecommunications

Full deregulation of the telecommunications sector by the year 2000 offers many opportunities for U.S. technology. The Government has approved the creation of a second telephone operator by 1997 (Retevision), with similar buying power as the current telephone monopoly, Telefonica. A third cellular telephone license will be granted in 1997, complementing the second license granted in 1994. Already deregulated are trunking, paging, data transmission, value added services, and satellite transmission subsectors.

Demand will grow for state-of-the-art satellite (VSAT) equipment and related technology, as this form of transmission grows due to deregulation and the opportunity for direct transmission on independently-owned satellites. The cable TV market in Spain is about to explode and create literally an avalanche of opportunities now that regulations have been implemented. Spain has an excellent fiber optic cable network nationwide (Telefonica), giving defense manufacturers the opportunity to introduce the latest in optoelectronics and other specialized hardware and software.

Aerospace

Even though Spain's flagship-carrier, Iberia, is experiencing severe economic difficulties and is reducing its fleet, there are still opportunities in the aviation/aeronautical sector. Several smaller but rapidly growing commercial carriers, such as Spanair and Air Europa, are interested in fleet expansion, and present opportunities for sales of aircraft, spare parts, and related equipment. Regional and local air travel is beginning to expand.

Environment

According to OECD estimates, environmental investments in the EU, reached US \$54 billion in 1994. Nearly US \$3 billion was invested by Spain. Investments made by Spanish industry totaled US \$9.8 billion from 1990-1994. These investments are expected to increase 46 percent to US \$14.3 billion from 1995-1999.

Key Spanish Ministry Points of Contact

Ministry of Economy and Finance

Ms. Maria Elvira Rodriguez Herrero
Directora General De Presupuestos
Ministerio De Economia Y Hacienda
Alberto Alcocer 2
28071 Madrid, Spain
Tel: 011-34-1-583-5056

Ministry of Industry and Energy

Ms. Elisa Robles Fraga
Directora General De Tecnologias Y Seguridad Industrial
Ministerio De Industria Y Energia
P. De La Castellana 160
28071 Madrid, Spain
Tel: 011-34-1-349-4000
Fax: 011-34-1-457-8978

Ministry of Development

Mr. Valentin Sanz
Director General De Telecomunicaciones
Ministerio De Fomento
Palacio De Comunicaciones, P1. Cibeles S/N
28071 Madrid

Doing Business in Spain

Marketing

The Spanish market consists of a series of regional markets joined to two major hubs - Madrid and Barcelona. The vast majority of agents, distributors, foreign subsidiaries, and government controlled entities that make up the economic power block of the country operate in these two hubs. Dealers, branch offices, or Government offices located outside of these two hubs will almost invariably obtain their supplies from their Madrid and Barcelona contacts rather than engage in direct importation. The key to a foreign firm's sales success in Spain is to appoint a competent agent or distributor, or to establish an effective subsidiary in either Madrid or Barcelona. Cost, financing terms, and after-sales servicing play important roles in marketability of a firm in Spain.

American defense equipment companies are generally cost competitive against Western European manufacturers. Nonetheless, European defense equipment exporters provide generous financing and their governments also support them through various trade promotion schemes. Although U.S. defense equipment is respected for its high level of technology and overall quality, U.S. firms often fall short of their competitors in terms of flexibility in financing and after-sales service.

One of the most important aspects about doing business with the Spanish Armed Forces is the need to prepare a comprehensive and attractive industrial package for large procurement projects. An industrial package normally includes one or more of the following elements:

- Domestic manufacture of a significant share of the product
- New purchases from domestic suppliers
- Export assistance and promotion for domestic companies
- Agents and distributors; finding a local partner

Both the government and armed forces headquarters are located in Madrid. Therefore, most of the agents and distributors operating in the defense market are located in Madrid or surrounding areas and cover the entire country. Most U.S. defense equipment manufacturers sell their products in Spain through agents or distributors.

Regulations provide that a principal and an agent execute a written contract in which they stipulate the agreed terms, including provisions for cancellation of the agreement. A fixed-term, written contract normally does not raise any relevant issue with respect to its

termination. By contrast, termination of an indefinite duration agreement may raise a number of legal issues. Successive renewals of a fixed-term contract may be interpreted by the courts as an indefinite-duration contract.

Verbal agreements are enforceable contracts, but require burden of proof. Under Spanish law, no one is bound in perpetuity. Should a party grant indefinite, exclusive rights, it is not bound forever by the initial commitment to the point that it cannot revoke the original, exclusive mandate. Nevertheless, an ongoing, indefinite relationship cannot be terminated without a reasonable cause. If it is terminated, damage compensation may apply, particularly if the termination is viewed by the court as being without reasonable notice or abusive.

The U.S. & Foreign Commercial Service (US&FCS) offers several programs to assist U.S. firms in marketing their products in Spain:

- *Agent/Distributor Search (ADS)* - A customized search for interested and qualified foreign representatives; will identify up to six foreign prospects that have examined the U.S. firm's product/service literature and have expressed interest in representing it.
- *Gold Key Service* - One-company trade mission. Appointments scheduled with Spanish companies that meet a profile of potential buyers, distributors, or representatives. An escort interpreter is provided as part of the service. Three week advance notice is required for scheduling. Fax Commercial Attache Rajendra Dheer at (011-341) 575-8655 for access to this service when planning a trip to Madrid or Barcelona.

Joint Ventures

One way for a U.S. company to penetrate the Spanish market is through a joint venture. The following is a description of three types of temporary joint ventures under Spanish law.

- *Uniones Temporales De Empresas (UTE)* - A group of companies can form temporary business associations (UTE) to undertake specific projects for a limited time. This type of association does not have a separate legal personality. Therefore, companies maintain their legal status while allowing common operations under a set of regulations. Foreign companies can enter this type of arrangement.
- *Agrupacion De Interes Economico (AIE)* - This economic interest group is also a type of joint venture between Spanish participants (American companies established in Spain are considered Spanish companies). It is similar in concept to a partnership because its participants have joint and separate liability for their debts. To form an AIE, the participants must execute a public deed, incorporating bylaws, and record it at the commercial register. The internal operation of an AIE is similar to that of a corporation and an AIE can be converted, at any time, into another type of commercial entity.

- *Agrupacion Europea Se Interqs Economico (AEIE)* - This is the European version of the AIE, the European Economic Interest Group. A cross-border version of the AIE was introduced by EU Regulation 2137 of 1985. A local AEIE is a separate legal entity and must be incorporated in Spain and recorded in the commercial register. In most respects, it is similar in constitution and operation to an AIE.

These three joint ventures models are tax transparent, and they apportion their income among members. In all of these cases, the members are responsible for profits and losses.

Joint ventures in the defense sector require approval by the Government. As stated earlier, defense companies cannot have more than 25 percent foreign ownership. The Government (Council of Ministers) must approve and may allow a greater than 25 percent interest (up to 49 percent). If only commercial products are involved, 100 percent ownership interest is possible. U.S. owned companies in Spain are on an equal footing with Spanish firms.

Establishing an Office

The first decision a foreign investor in Spain must make is whether to incorporate a subsidiary (i.e. a separate corporation) or a branch. Both have full legal status for any kind of operation and their profits are taxable in Spain. If the investor decides to incorporate a subsidiary, the next decision is whether to incorporate a public limited-liability company (Sociedad Anonima, or SA) or a private limited company (Sociedad De Responsabilidad Limitada or SL or SEL). The SA is structured for larger businesses, the SL for smaller. In both types of companies, the shareholders are not liable for the company's debts. The main differences are in their capital (10 million pesetas versus half a million), the number of founding members (3 versus 2), flexibility permitted at general meetings, transfer of shares, and management of an Sociedad Limitada (SL).

Companies interested in setting up an operation in Spain must consider legal advice. Major consulting groups, as well as law firms, are available to carry out the necessary steps for incorporation in Spain. The Consular section of the American Embassy maintains an updated list of English speaking attorneys.

Selling to the Government

Although legislation regarding the consolidation and rationalization of public-sector purchases was passed in 1985, there is still no central purchasing agency within the Spanish government or its controlled industries. Each government ministry, agency, or government-owned company procures supplies and services independently. Regional and local government agencies follow the same general procedures regarding foreign purchases as the central government.

The various types of tenders used in Government procurement are as follows:

- *Auction (Subasta)* - the contract is awarded to the lowest bidder;
- *Selective tender (Concurso-Subasta)* - the contract is awarded to the lowest of pre-qualified bidders;
- *Tender (Concurso)* - the contract is awarded on the basis of most advantageous overall proposal in which price may not be the determining factor; and
- *Private Tender* - the contract is awarded to whatever firm the Government chooses.

International tenders are announced at least 40 days prior to the submission date and domestic tenders 20 days before the submission date. Validating documentation may be requested at submission. All requirements are published in the official state bulletin.

Under Spanish law, foreign companies seeking contracts with the Spanish government are treated the same as Spanish firms. In many of the large defense procurement bids, however, decisions are made on political grounds. American companies established in Spain receive national treatment.

Requirements for international tenders are that the foreign enterprise must have legal status (for example, corporation or partnership) in accordance with its own national laws and the firm must also be prepared to waive jurisdiction in favor of Spanish courts. Approval of the Ministry of Economy and Finance is required for contracts resulting in payments in foreign currencies. For major defense procurements, the Spanish government generally asks vendors to offer substantial offsets.

Offsets

There are no established regulations or procedures for offsets in Spain. An offsets package may include transfer of technology, investment, or additional Spanish export transactions. Typical offset commitments for military sales reportedly range from 130 to 200 percent of the purchase price.

There is not a single government policy towards crediting offsets. The Defense Ministry allows offset credits in privately owned companies or operations. In all cases, prior project approval is required to credit offsets.

Intellectual Property Rights (IPR)

Patents

The Spanish Patents Act of March 20, 1986, brought Spain into conformity with the European patent convention and the anticipated EU patent convention, as a requirement for its entry into the EU. Many products imported before 1986 are still under the previous legal regime which allowed introductory patents for imported goods. The exclusive exploitation period for

introductory patents, which are only valid for manufacturing, is 10 years, but these do not afford protection for imported products.

A 20-year period for working patents is available and the patent must be worked within three years of patenting. Third parties may be licensed to use the patent for a fee. There is a two month average wait for provisional registration and more time for patents with opposition. Utility designs incorporating technological innovations are patentable in exclusivity for 20 years.

Industrial Designs

Industrial designs are known by their form or external characteristics and are eligible for exclusive exploitation for renewable periods of 10 years. Although third parties may oppose registration on the basis of similarity to already registered models, registration is not forfeited because of non-use.

Trademarks

Both the Trademark Law of November 1988 and the Intellectual Property Law 175087 of November 1987, address protection for brand names and trademarks. Trademarks must be registered to be protected. The right of exclusive use, following acceptance of the brand or mark in the industrial property register, enjoys full protection.

Trademark protection lasts for 29 years and may be renewed. The courts may declare the expiration of a trademark that has not been used for five years. The first applicant is entitled to registration and exclusive use. As signatories to the "Paris Union" International Convention on Industrial Property, the United States and Spain grant national treatment to the intellectual property of the other.

Copyrights

The Intellectual Property Law of November 1987 offers copyright protection for all original literary, artistic, or scientific creations, including computer software. Spain and the United States are members of the universal copyright convention. To be accorded protection, U.S. authors must include the copyright symbol, title, name of author, and first date of publication. The copyright is valid for the life of the author and for 80 more years for heirs.

Computer software is eligible for 50 years of protection. Nonresident U.S. citizens in Spain may contact the U.S. Department of Commerce, Spain Desk Officer, at the American Embassy in Madrid, or the American Consulate General in Barcelona, for a list of attorneys to file intellectual property rights applications. A list of patent attorneys is also available from the Industrial Registry Section of the Ministry of Industry and Energy.

Need for a Local Attorney

Foreign companies and individuals are advised to seek legal advice for any business operation in Spain, whether it is set up as subsidiary or a branch, to carry out business transactions, or to acquire residency in Spain. Regulations are complex and legal help is useful in many everyday commercial activities. The Consular Section of the U.S. Embassy maintains an updated list of English speaking attorneys operating in Spain.

In Summary

- *Involve the U.S. Embassy* - U.S. and Foreign Commercial Service, the Office for Defense Cooperation (ODC), the Defense Attache's Office (DAO) and/or the political/military and economic sections.
- *Find a good Spanish joint venture partner.*
- *Find an agent* who knows the key Government decision-makers for the procurement project of interest. Key company officials should meet with them.
- *Price is not always the deciding factor.* Political pressure and other factors are also important.
- *Demonstrate concern, not indifference.* Meet delivery schedules; promise only what can be delivered.
- *Demonstrate commitment to the Spanish market.*

As a signatory to the MTCR and other defense and dual-use related control bodies, Spain enforces a licensing system (including end-user certificates) which could affect potential imports and re-exports. U.S. companies should obtain the necessary permits and ensure that their Spanish partner has done likewise before finalizing a contract. Separate from these international regulations, Spain also has a series of laws governing the importation of weapons (including handguns), which may work to limit opportunities for commercial sales. Spain is also a signatory of the IPC and will protect foreign technology, although the Government firmly opposes the use of "black box" technology.

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Spanish market.

U.S. Embassy

American Embassy Madrid
Serrano 75, Madrid
Tel: (34-1) 577-4000
Fax: (34-1) 577-5735

Points of Contact at the Embassy:

David Nelson, Counselor for Economics Affairs
Gustavo Delgado, Political/Military Affairs Officer

Points of Contact at the Defense Attache's Office:

Capt. Tinsley, U.S. Defense Attache
Maj. Nunez-Barreiro, Assistant Air Attache

US&FCS Madrid
Serrano 67, 4th floor, Madrid
Tel: (34-1) 576-0602
Fax: (34-1) 575-8655

Points of Contact :

Rafael Fermoselle, Commercial Counselor
Raj Dheer, Commercial Attache
Harry Tyner, Assistant Commercial Attache
Luis Santamaria, Commercial Consul (Barcelona)

Office of Defense Cooperation (ODC)
Tel: (34-1) 549-1339
Fax: (34-1) 543-3207

Points of Contact:

Capt. Leroy Sheehan, USN Chief, ODC Spain
LTC Cliff Graham, U.S. Army Material Officer
Col. Glen Locklear, U.S. Air force Material Officer
LTC Jose Rodriguez, U.S. Air Force Material Officer
CDR Michael Kapsch, U.S. Navy Material Officer
CDR Christopher Schnedar, U.S. Navy Material Officer
LTC Jeffree, USMC Material Officer
Ms. Paula Guluzian, Armaments Cooperation Specialist

SWEDEN

SWEDEN

Defense Industry Environment

In December 1995, the Riksdag passed a five year defense budget bill. From FY 97 through FY 2001, the defense budget will gradually be reduced by 10% to SEK 36 billion (US \$5.33 billion). The funds appropriated for procurement are about 40 percent of this amount (US \$2.13 billion). Although several defense acquisition programs face an uncertain future, the Government remains committed to the major projects. Defense funding accounts for 6.9% of the total state budget and 2.3% of GDP.

Sweden's defense industry is preparing for the effects of the defense budget cuts. The largest defense contractor, Celsius Industries, represents 50% of the Swedish defense industry with well-known products such as Bofors weapon systems, Kockums submarine systems, Karlskrona surface warships, and Celsius Tech defense electronics. Employing approximately 11,000 people, with annual sales of SEK 9.6 billion (US \$1.4 billion) in 1995, Celsius is one of Europe's top ten defense contractors. However, due to defense budget cuts and foreign competition, Celsius has been forced to lay off about 30 percent of its work force since 1989 with another 1,500 likely to be laid off in 1997. Other Swedish manufacturers are Saab Defense Group and Volvo Aero Corporation. The dwindling domestic market and mounting R&D costs are forcing the Swedish defense industry to seek foreign partners, a development favored by the Government and the Riksdag.

Annual Swedish procurement from U.S. suppliers totals between US \$100-200 million. The new Gripen combat aircraft contains 34 percent foreign sourced components, 28 percent of which are supplied by U.S. firms. Germany (Krauss-Maffei, Mauser-Werke), France (Intertechnique, MATRA, GIAT), and Great Britain (Hymatic, Dowty, Lucas Aerospace, A.P. Precision Hydraulics) are also large suppliers of defense equipment and components to Sweden.

Defense Opportunities

A key element of the Swedish 1997 defense plan is to maintain 12 modern combat-ready Army brigades, which together with other Army division units, will provide the basis for Sweden's territorial defense. The infantry brigades in northern Sweden will be supplied with the new Swedish-built armored vehicle, CV90, providing added fire-power and mobility. Bofors AB developed the 40 mm main armament, ammunition and turret; Hagglund Vehicle developed the chassis.

New tanks were procured in 1993 from Krauss-Maffei of Germany, the prime contractor. Anti-aircraft capability will be enhanced by the introduction of Missile 90 and the surface-to-air missile, Bamse, developed by Bofors AB and Ericsson Microwave Systems Division. Air

defense is a priority. Until the JAS 39 Gripen aircraft becomes operational, Sweden will rely on eight JA 37 Viggen divisions, supplemented with modified J Draken divisions. After the Gripen is introduced, the Swedish Air Force will comprise 13 divisions (a total of 260 aircraft). Weaponry for the new plane will be supplied by Hughes-Raytheon.

A new generation surface combat ship will be added. Sweden's submarine program will be continued and further enhanced through the introduction of an air-independent propulsion system (Tillma), based on Stirling technology, which enables a submarine to operate submerged for long periods of time. Personal protection for soldiers will be improved, as well as night combat capability. There are plans to buy attack helicopters and additional missiles for the Gripen aircraft. The U.S. has traditionally been a large supplier of communications equipment and avionics to the Swedish Armed Forces.

Defense Procurement Process

The procurement agency within the Ministry of Defense (FMV) provides the national defense establishment with weaponry and other supplies and serves as a support agency, supplying services and requisite equipment on assignment. The assigners are primarily the Service Commanders-in-Chief (Army, Navy, Air Force) and in some instances the Supreme Commander. The FMV point-of-contact is:

Forsvarets Materielverk (FMV)
(The Defense Matériel Administration of Sweden)
S-115 88 Stockholm
Tel. (46-8) 782 4000
Fax (46-8) 667 5799

Swedish defense purchases are governed by the "Swedish Government Ordinance Concerning Purchases" (1986:366) and the National Audit Bureau Directive (1986:612) relating to this ordinance. Additional regulations governing defense purchases are contained in the "General Regulations for Goods Delivered to the Swedish Defense Authorities", issued in 1957. This publication is normally provided to contractors with the solicitation. There is nothing analogous to the Commerce Business Daily in Sweden and there are no regularly scheduled conferences at which upcoming procurements are announced to the industry. Procurement notices are published weekly in the EU Official Journal. FMV publishes "Swedish Defense Contracts," a periodical bulletin which informs the industry of contract opportunities with the FMV.

The FMV has no general requirements for restricting purchases to domestic sources, but for procurements vital to the national security of Sweden, FMV will insist that the prime contractor be Swedish. This does not preclude foreign partners or foreign subcontractors.

Another agency/ministry with jurisdiction over defense trade is the Inspectorate for Strategic Products (ISP). The Inspectorate's responsibilities include reviewing defense industry applications for exports, manufacturing, and marketing licenses. Contact:

Mr. Staffan Sohlman, Director General
Inspectorate for Strategic Products (ISP)
Box 70256
S-107 22 Stockholm
Tel. (46-8) 406 3100
Fax. (46-8) 20 31 00

In the United States, the primary point of contact is the Counselor for Defense Procurement at the Swedish Embassy in Washington:

Embassy of Sweden
Mr. Lars Bjerde, Government Procurement
1501 M. Street N.W.
Washington, D.C. 20005-1702
Tel. 202/467 2600
Fax. 202/467 2699

The FMV does not normally require prequalification, nor does it assign identification codes to its suppliers. It normally prepares a list of potential suppliers and solicits these firms for bids. According to Swedish government procurement regulations, any firm can request to be added to the solicitation list unless the procurement is restricted for security reasons.

Specifications necessary for bidding are normally included in the solicitation package. Sweden has no national repository for specifications. They are available only in connection with a procurement action.

Purchases are made by sealed bid or negotiated procurement, or by direct purchasing for small purchases. These methods are very similar to those used by the United States and, for the most part, are used under similar circumstances. For sealed bids, offerors should be prepared to sign a contract without any discussion.

Specific types of contracts used by the FMV, in addition to standard fixed-price and cost-plus contracts, are: maximum-price contracts, basic-price contracts, cost contracts with variable profits, cost contracts with fixed profits, and cost contracts with predetermined percentage profits. In negotiated procurements, the type of contract may also be negotiable. When fixed-price contracts contain economic adjustments, the index to be used will be specified in the solicitation. Contract financing can also include progress payments and advance payments, as specified in the contract.

There are no mandatory contract clauses or certification requirements. Nor does the FMV normally demand a right of ownership to technical data rights. If the FMV wishes to be assured a right of use (e.g., developmental contracts), it will indicate this in the solicitation. The right of use may apply to design materials, drawings, and specially designed tools as well as to any inventions or processes produced related to the contract. The right of use may also apply to patents, registered designs, etc. The contract may indicate under what conditions a contractor must share his design material with another manufacturer appointed by the FMV.

In comparing offers from foreign vs. Swedish suppliers, customs duties, import duties, and sales tax are added by the FMV to the price, where applicable. U.S. suppliers are not exempt from these requirements. Depending on the contract, the FMV may allow the prime contractor to select its subcontractors or it may direct subcontractor selection.

For large contracts to be placed with U.S. companies, the FMV will normally contact the U.S. Department of Defense to discuss the supplier's credentials. For smaller, unknown suppliers, the FMV may also seek information through a credit rating agency.

When buying from U.S. sources, the FMV will normally request that quality assurance be provided by the U.S. Defense Contract Management Office. In addition, the FMV may itself perform on-site inspections for large contracts where there is no previous FMV experience with the supplier. The FMV follows standard NATO practices.

If the FMV awards a contract that, for reasons of national security, should be classified, the procuring agency will sign an agreement with the contractor concerning the security regulations necessary in that particular case. The Decree (1969:44) on Control of Personnel stipulates personnel security requirements.

Diversification/Commercial Opportunities

The current socialist Government blocked the previous Government's proposal to privatize 35 government owned companies. Legislation has been submitted to the Swedish parliament (Riksdag) to facilitate more effective administration of these enterprises. One of the proposals is that the Government should be allowed to decide questions concerning the infusion of capital and the purchase or sale of shares, etc.. There are opportunities for U.S. companies in various key industry sectors.

Aerospace

The U.S. is a large supplier to Saab Aircraft Company, a manufacturer of commuter aircraft (SF 340 and 2000). The only major project planned in the aerospace sector is a third runway at Stockholm-Arlanda airport, which is expected to be finished by the turn of the century.

The authorities are waiting for final approval. Projects already underway include a new airport at Karlstad and a new national air traffic control system.

Electronic Components

The United States is the leading supplier of sophisticated components, with strong competition from European as well as Asian companies. Sweden's multinational firms, Ericsson, ABB, and Telia will continue to buy large quantities of components and the market for semiconductors is expected to increase by 30 percent over the next several years.

Medical Equipment

Sweden is one of the most advanced medical equipment markets in the world. The United States is the second largest supplier, with an estimated market share of 30 percent. The Swedish medical market looks to the U.S. for new developments in research and the application of new techniques. The demand will remain stable for screening equipment (including X-ray and ultra-sound equipment) and interest remains strong for cardiological equipment, laser based surgical equipment, and patient monitoring systems.

Law Enforcement Equipment

U.S.- made products enjoy a good reputation, but NTM-firms should be prepared to find the market well covered, with keen competition from both domestic and third-country suppliers. Access control equipment, electronic locks, intruder alarms, and surveillance equipment should offer a potentially good market for U.S. suppliers in 1997.

Environmental Technologies

Sweden's major environmental concerns are acidification, ozone, and pollution of the sea, most of which originate outside of the country. Domestic firms are strong in the areas of air and water pollution, waste management, and environmental monitoring. American products enjoy a good reputation but will find strong competition from both domestic firms as well as third-country suppliers, especially Germany. According to trade sources, products and services related to air pollution control and water treatment are rather well covered in the market, while waste management products/techniques should offer good opportunities.

Foreign Investment

Sweden's January 1995 accession to membership in the EU brought changes in the attitude and law toward foreign direct investment in Sweden. Reforms have been implemented to improve the business regulatory environment to promote such investment, and the Government is seeking ways to ensure wider ownership in Swedish industry. This, they believe, will increase competitive pressure and promote greater efficiency. There is now almost total

harmonization of Sweden's commercial and financial law, regulations, and business practices with those of the EU.

Foreign exchange transactions have been decontrolled, the law requiring foreigners to obtain permission to acquire shares or holdings in Swedish firms has been abolished, and real estate regulations have been changed so that foreigners can now acquire commercial real estate and land for mining in Sweden. In addition, the former corporate practice of restricting a certain percentage of equity shares from foreign acquisition has been abolished. Today, all corporate shares listed on the Stockholm Stock Exchange may be acquired by Swedes and foreigners alike, though the shares may still have differing voting strengths.

The regime for foreigners in financial services has been liberalized as well. Now, foreign banks, brokerage firms, and cooperative mortgage institutions are permitted to establish branches in Sweden on equal terms with domestic firms. These fundamental changes in Sweden's foreign direct investment regime have significantly improved Sweden's investment climate and opened the country to foreign mergers and takeovers.

Swedish Civil Agencies with Procurement Responsibilities

The Swedish Civil Aviation Administration

S-601 79 Norrköping

Tel. (46-11) 19 20 00

Fax. (46-11) 19 25 75

The National Rescue Services Board

Karolinen

S-651 80 Karlstad

Tel. (46-54) 10 40 00

Fax. (46-54) 10 28 89

The National Police Board

Box 12256

S-102 26 Stockholm

Tel. (464-8) 401 9000

Fax. (46-8) 401 9065

The Royal Swedish Fortifications Administration

S-631 89 Eskilstuna

Tel. (46-16) 15 40 00

Fax. (46-16) 13 37 02

The Swedish Maritime Administration

S-601 78 Norrköping

Tel. (46-11) 19 10 00
Fax. (46-11) 10 19 49

Doing Business in Sweden

Exporting U.S. products to the Swedish market is not complicated. Sweden offers American exporters a wide range of methods for distributing and selling their goods. Exporters usually employ agents/distributors, who often represent several foreign firms and are normally assigned to cover the entire country. Manufacturers seeking an agent/distributor in Sweden should plan to visit the country to make a firsthand appraisal of the relative merits of prospective agents/distributors. Besides acquainting the exporter directly with the market, such a visit also provides an opportunity to discuss policy and sales campaigns with the agent. Close contact between the American principal and the Swedish agent/distributor is very important and should be developed early. The exporter should also make provisions for adequate support services.

Swedes enjoy meeting and working with people from other countries. Business customs are similar to those in the United States and a visiting U.S. businessman would easily adapt to those prevailing in Sweden.

Tariffs and Imports

After Sweden's entry into the European Union, in January 1995, the Swedish customs law and regulations were replaced by EU law. Thus, Sweden applies the external EU tariffs to imports from the United States and other non-EU countries. Most industrial products are charged between a 5 percent and 14 percent duty. Goods imported into Sweden are also subject to a value-added tax (VAT) of 25 percent with a lower VAT rate of 12 percent for food and certain services. Import licenses are required only for a few commodities. Certain goods, such as weapons, explosives, drugs, poisons, etc., may be imported only by authorized persons and institutions.

Export Controls

Export license applications for both military equipment and dual-use goods are handled by the Inspectorate for Strategic Products (ISP). Licensing decisions are made by ISP, but matters of significance may be referred to the Swedish Government for action.

The legal basis for export controls of military equipment is the Law (SFS 1992:1300), and Ordinance (SFS 1992:1303). The legal basis for export controls on dual-use goods is the EC Council Regulation 3381/94. National dual-use legislation consists of LAW (SFS 1991:341), and Ordinance (SFS 1994:2060) regarding strategic products.

Standards

Sweden uses the metric system and products for sale in Sweden should be compatible to it whenever possible. U.S. exporters not using the metric system have a serious disadvantage in the world market since overseas buyers are reluctant to accept products that are non-metric. Electric current in Sweden is 50 hz, AC 230v single-phase and 230/400 three-phase. Information about Swedish standards may be obtained from:

The Swedish Standards Institution
Box 3295
S-103 66 Stockholm
Tel. (46-8) 610 3000
Fax. (46-8) 30 18 50

Intellectual Property Rights

Sweden is a member of the "Paris Union" International Convention for the Protection of Intellectual Property (patents, trademarks, commercial names, and industrial design) to which the United States and about 80 other countries adhere. American business executives and inventors are thus entitled to receive national treatment in Sweden (treatment equal to that accorded Swedish citizens) under Swedish law for protection of patents and trademarks. Applications or inquiries pertaining to intellectual property should be addressed to:

Director General
Patents & Registration Office
(Patent & Registreringsverket)
Box 5055
S-102 42 Stockholm
Tel. (46-8) 782 2500
Fax. (46-8) 666 0286

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Swedish market.

U.S. Embassy

Mr. Peter G. Frederick, Commercial
Counselor
American Embassy
Strandvagen 101
S-115 89 Stockholm
Tel. (46-8) 783 5346

Fax. (46-8) 660 9181

Col. Scott Sonnenberg
Defense Attache Office
Strandvagen 101
S-115 89 Stockholm
Tel. (46-8) 783 5300
Fax. (46-8) 662 8046

**Swedish and American Business
Associations**

Ms. Marianne Raidna Wali, President
American Chamber of Commerce
Box 55121
S-114 85 Stockholm
Tel. (46-8) 666 1174
Fax. (46-8) 662 8884

Mr. Dag Tornblom, President
Forsvarsindustriforeningen
(The Association of Swedish Defense
Industries)
Box 5501
114 85 Stockholm
Tel. (46--8) 783 8079
Fax. (46-8) 667 8818

Mr. Tell Hermansson, Head International
Department
Stockholm Chamber of Commerce
Box 16050
S-103 21 Stockholm
Tel. (46-8) 613 1800
Fax. (46-8) 411 2432

Mr. Per Olofsson, President
Federation of Swedish Industries
Box 5501
S-114 85 Stockholm
Tel. (46-8) 783 8000
Fax. (46-8) 662 3595

Mr. Sture Lindmark, President
Swedish Federation of Commerce and Trade
Box 5512
S-114 85 Stockholm
Tel. (46-8) 663 5280
Fax. (46-8) 662 7457

TURKEY

TURKEY

Overview

From the establishment of the Republic in 1923, until 1980, Turkey was an insulated, state-directed economy. In 1980, the country began an economic turnaround based on increased reliance on market forces, export-led development, lower taxes, integration with the world economy, and privatization. These reforms resulted in the highest average annual growth rates over the past decade, of any member of the Organization of Economic Cooperation and Development (OECD). The private sector has emerged as the powerful engine of the country's economic growth. Turkey is now gearing up to respond to import competition and to take advantage of expanded market access to the European Union (EU).

The January 1, 1996 introduction of a customs union with the EU marked a watershed in Turkey's economic history. This new union brought with it Turkish implementation of EU regulations in important areas such as international trade regulations, competition policy, and intellectual property rights protection. It also reduced the cost of imports. The new tariff rates, and the elimination of most "fund" payments associated with imports, reduced the average import payment from about 11% to 4%, and for U.S. products, and about 6% to zero for EU products. Agricultural products were not affected by the trade pact.

In 1996, GNP grew about 7.9%, led by private sector investment spending, which was consistent with the growth rate of the previous year. The per capita GNP figure for 1996 was \$2,928. Turkey is going through a period of high inflation (currently 80% a year). In addition, the Turkish Lira (TL) foreign exchange rate is expected to average about 160,000TL/\$ for the year, and reach 200,000TL/\$ by year's end. In May, the size of Turkey "non-recorded" economy was estimated at 25-50 percent of official GNP and is equally dynamic. Best prospect sectors for American exporters include: power generation, telecommunications, building products, medical equipment, automotive parts, and textile machinery.

In 1995, the latest year available, Turkish imports were valued at \$35.7 billion. The largest source of imports was from Germany, which accounted for 15.5%, followed by the United States (10.4% or \$3.7 billion), Italy (8.9%), Russia (5.8%), France (5.6%), and England (5.1%).

U.S. companies should diversify their product bases, to include equipment with defense/industrial/commercial applications. The Turkish industrial and commercial markets are very receptive to high-technology products, manufactured in the United States. The outlook for electrical power systems, electronic components, laboratory/scientific equipment, pollution control equipment, medical equipment, industrial process controls, and residential security

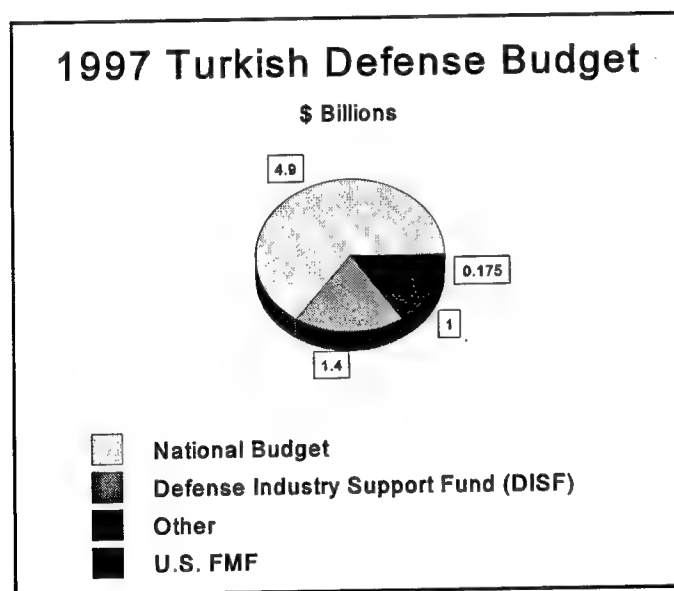
systems is particularly high. All of these industries are experiencing growth and all are receptive to U.S. products.

The Turkish market offers strong growth prospects for American exporters, despite inflation. Its dynamic private sector, young (50% under the age of 25) population of 65 million, regional connections, and massive infrastructure requirements validate its designation by the U.S. Department of Commerce as one of the ten "Big Emerging Markets" worldwide.

Defense Industry Environment

As a percentage of GNP (2.2%), Turkish defense spending is the highest in NATO. Turkey maintains the second-largest army in the NATO defense system. The requirements of the Turkish armed forces make the country a major market for weapons, ammunition, and defense systems sales by U.S. companies. Within the 1997 Turkish National Budget of 6,345 trillion TL, 671 trillion TL (about \$4.9 billion) or 10% of the National budget, has been allocated for the Turkish Ministry of National Defense (MOD). The Turkish armed forces, numbering 604,800 are divided between the Army (496,000), Navy (53,800), and Air Force (55,000). In general, one-third of the MOD allocation (about \$1.6 billion) is spent on foreign procurement

expenditures and military-related investments. Due to an intensive modernization program envisioned by the Turkish General Staff, this figure should increase in the years to come. The following chart demonstrates the sources of funding for the Turkish MOD.



To support its armed forces modernization, the government has established a policy of pursuing the acquisition of new equipment through a variety of channels, including Foreign Military Sales (FMS), the Southern Region Amendment (SRA), the Conference on Force Reduction in Europe Treaty (CFE), and direct commercial sales

(DCS). The following are the major programs and systems that are expected to receive acquisition priority:

Ongoing Programs:

- F-16 (Peace Onyx) Co-production (Air Force)
- MEKO/Track IIB Frigate Program
- Armored Combat Vehicle Co-production (Army)000

- Multiple Launch Rocket System (MLRS)
- AMRAAM (Advanced Medium-Range Air-to-Air Missile)

Future programs:

Army

- Helicopters (attack, heavy and medium-lift, utility)
- Modern Tanks
- Wheeled Armored Vehicles
- Tank Transport and Rescue Vehicles
- Pedestal Mounted Stinger Program
- Army Tactical Missile System(ATACMS)
- Artillery upgrades

Air Force

- F-16 Aircraft-possible follow-on buy/co-production
- KC-135R Tanker Aircraft
- F-5 (60 Aircraft)-Upgrade
- Airborne Early Warning and Command Control Aircraft (AWACS)
- Search and Rescue Helicopters
- UAV (Unmanned Aerial Vehicle)

Navy

- Turkish Frigate 2000 Program
- Fast Patrol Boats
- Submarines
- Mine Hunter Vessels
- Seahawk helicopters
- Maritime Patrol and Surveillance Aircraft
- "Extended Horizon" Monitoring-Reconnaissance Project

Turkey's domestic defense industry was given a boost with the establishment in 1985 of the Undersecretariat for Defense Industries (SSM), which is responsibility for the development and modernization of the Turkish defense industry. The Turkish Armed Forces Foundation (TAFF) is another organization created to develop the Turkish defense industry. They are also shareholders in a number of defense companies. The enterprises of the Foundation, by name, industry, and percentage of shares held, are as follows:

- Aselsan: Military Electronic Industries. The Foundation holds 85% of the shares.

- **Aspilsan:** Military Battery Industry. The Foundation holds 83% of the shares.
- **Havelsan:** Aviation Electronics Industry. The Foundation holds 97% of the shares.
- **Isbir Elektrik:** Synchronous alternator and diesel-generating set manufacturer. Electric Industry. The Foundation holds 60% of the shares.
- **Roketsan:** Missiles Industry. The Foundation holds 15% of the shares.

In addition to the above mentioned enterprises, the Foundation holds shares in the following companies: Ditas (oil transportation), Netas (telecommunications), Koytas (agricultural and industrial machinery), Otomarsan (bus and motor vehicles), Petlas (tire manufacturing) and Testas (electronics).

Other local defense manufacturers include:

- **FNSS:** A joint venture company between Nurol (Turkish) and FMC (U.S.), to produce armored combat vehicles in Turkey.
- **MIKES:** This is a joint-venture company between various Turkish shareholders and Loral (now Lockheed Martin) for the delivery of integrated EW systems for the Turkish F-16 Program (Peace Onyx).
- **MKEK:** Turkey's largest industrial organization. MKEK owns military factories producing a wide range of ammunition, small arms, 105 mm tank guns, rockets, mortars, blasting caps, grenades, mines, and batteries. MKEK also has a civil sector to produce industrial machinery, stainless steel pipes, construction equipment, and textile machinery. MKEK keeps its range of production in four main groups: machinery, chemicals, metal/wood materials, and weapons/ammunitions.
- **Tusas Aerospace Industries:** TAI was established as a joint venture company with General Dynamics (now, Lockheed Martin) to co-produce F-16 aircraft. The Foundation is a major shareholder.
- **Tusas Engine Industries:** TEI formed a joint-stock company, together with the General Electric Company, to produce F110/GE100 engines for the F-16 program.

The United States supplies nearly 80 percent of the foreign military hardware used by Turkish armed forces. Other major suppliers are: Germany (Blohm & Voss, Heckler & Koch, Krauss Maffei, Rheinmetall, Wegmann, etc.), United Kingdom (GKN, Marconi, Plessey, Racal,

Rockwell Collins, Rolls Royce, Royal Ordnance, etc.), France (Giat, Thomson-CSF, Eurocopter, etc.), Italy (Officine Galileo), Spain (CASA).

Local manufacturers include:

- FMC-Nurol (Ankara): Tanks, armored vehicles, and related equipment:
- OTOKAR (Istanbul); ROCKETSAN (Ankara), and MKEK (Ankara and Cankiri): Weapons for ground forces, rockets, and missile propulsion systems.
- ASELSAN (Ankara); TELETAS (Istanbul) and SIEMENS (Bursa): Ground-based communication systems.
- ASELSAN (Ankara) and TRANSVARO (Istanbul): Sensors and weapon-control systems for ground forces.
- BARUTSAN (Ankara); MKEK (Ankara) and ASELSAN (Ankara): Engineering and area denial equipment:
- SUMERBANK (Ankara) and TEKNOTES (Istanbul): Uniforms and personnel equipment, protective clothing and equipment.

Defense Opportunities

Turkey has one of the most powerful, best disciplined, well equipped, and well trained armies in the world. Consequently, it must keep abreast of rapidly-developing military technology. Military sources indicate that \$150 billion will be needed to fund the Turkish Armed Forces for the next 25 years. During this period, the Army ground forces will need \$60 billion, the Navy will need \$25 billion, and the Air Force will need \$65 billion in arms and equipment. The Turkish General Staff indicated that 1,523 projects are planned, at a cost of \$67 billion, until the year 2004.

The Turkish defense industry is developing with the support of the private sector and now appears to be one of the fastest-growing industrial sectors. Along with the state, the private sector is playing a major role in making Turkey's defense industry more competitive. A growing number of subcontractors from other industrial sectors have become involved in defense manufacturing. Military officials indicate that 21% of the needs of the Turkish Armed Forces are met by domestic production for major weapons, equipment, and spare parts, while the remaining 79% is supplied from abroad. Defense opportunities exist in the areas of upgrades and new systems. The potential for upgrading and/or replacing of spare parts and for maintenance, logistics, and service opportunities centers around the upgrading of the F-5 aircraft.

The Turkish Armed Forces include the following items as priorities for procurement:

- Tanks
- Tanker Aircraft
- Command and Control Aircraft
- Patrol Boats
- Mobile Radars
- Helicopters (utility, attack, scout)

The MOD pursues the development of Turkey's indigenous defense capacity to the maximum extent possible. Key defense protection requirements include the southeastern flank of NATO and the critical passage from the Black Sea into the Aegean. The large military forces of the neighboring former Soviet Republics will remain the dominant military threat to Turkey. The potential for armed conflicts within the nearby Central Asian Republics, the Balkans, and the Middle East underscores possible dangers from the growing instability in the region. The current Turkish Ministry of Defense program objectives may be summarized as follows:

- Modernize communications
- Modernize fire power
- Reduce the size of the Armed Forces

Defense Procurement Process

The Turkish Ministry of National Defense (MND), under the direction of the Minister of National Defense, is responsible for meeting the requirements of the Turkish Armed Forces, from foreign and domestic sources, according to the programs and priorities determined by Turkish General Staff (TGS). This function of the MND is performed by the Deputy Under Secretary for Economical and Technical Affairs, and subsidiary departments. This department uses national budget funds to realize modernization projects. The Undersecretariat of Defense Industries uses the special "Defense Industries Support Fund" for material and service purchases.

Scaled bids are generally solicited. Bids are published in the Turkish Official Gazette and, for large procurement contracts, in at least two local newspapers in Ankara and Istanbul. In general, tender specifications are also sent to Turkish Military Attaches in Canada, France, Germany, Italy, Japan, Spain, U.K. and U.S., where major vendors are located. If the purchase might be made from the U.S., an announcement is also made in the Commerce Business Daily. Open tenders are sometimes used for routine or small procurements of supplies. The time frame for submission of tender proposals is generally four to six weeks. Bid bonds are sometimes requested and they are usually three percent of the total contract value. The winning bidder must submit a final guarantee and a performance bond (which is normally twice the amount of the bid bond). Both bonds have to be counter-guaranteed by a Turkish national bank. On completion of the contract, the performance bond is refunded, provided that the terms of the contract have been met. The bid bonds of unsuccessful bidders are also returned.

U.S. firms have been very successful in the Turkish defense market, but they are also frustrated by delays in some major equipment deliveries. A long-term commitment and in-country presence are needed to develop sales opportunities and to successfully market military equipment in Turkey.

There are no barriers to selling general items through a local distributor on a regular commercial basis. However, there are important purchasing policies and procedures, applying to defense purchases, with which suppliers should be familiar before submitting a tender. There is a need to team or partner for major bids and a requirement to include local content components in major bids. Local content is determined as the value added by Turkish companies and refers to the part of the contract that is obtained from local sources. Value added is the selling price of the product or service, less the duty paid for importer components, materials, and services. An offset package is frequently required for major sales.

There are no laws or regulations which give preference to domestic over foreign goods, although domestic firms are given special consideration for small orders. The availability of suppliers' credits may determine bid awards for some major procurement schemes. All credit offers must be screened by the Undersecretariat of Treasury, which has the responsibility for making final credit decisions.

Agencies/Ministries involved in the defense procurement process:

Undersecretariat for Defense Industries
(Savunma Sanayii Mustesarligi- SSM)
Inonu Bulvari, Kirazlidere Mevkii
06100 Bahceliever, Ankara, Turkey
Tel: 90-312-417-2326
Fax: 90-312-417-3266

Ministry of National Defense
Technical Affairs Office
(Milli Savunma Bakanligi Teknik Hizmetler
Dairesi Baskanligi) Ankara, Turkey
Tel: 90-312-425-1956 or 402-5245
Fax: 90-312-417-5488

Turkish Ministry of Defense
NATO Infrastructure Department
Bakanliklar, Ankara, Turkey
Tel: 90-312-417-1466 or 402-4272
Fax: 90-312-418-3384

Ministry of National Defense
Foreign Procurement Department
(Milli Savunma Bakanligi
Dis Tedarik Dairesi Bakanligi)
Ankara, Turkey
Tel: 90-312-418-9616 or 402-3235
Fax: 90-312-417-7342

Turkish Gendarmerie Command
Procurement Department
(Jandarma Genel Komuntangili
Ikmal Sube Mudurlugu)
Ankara, Turkey
Tel: 90-312-417-3100, Ext. 4473
Fax: 90-312-418-3384

Coast Guard Command
(Sahil Guvernlik Komutanligi
Lojistik Baskanligi)
Karanfil Sokak 64
06100 Bakanliklar, Ankara, Turkey

Tel: 90-312-417-0583 or
417-5050(SW)
Fax: 90-312-425-2845

Undersecretariat of Treasury
Ismet Inonu Bulvari
06510 Emek, Ankara, Turkey
Tel: 90-312-212-8800
Fax: 90-312-212-8778

Other Agencies/Ministries with Jurisdiction over Defense Trade

Ministry of Interior
(Icisleri Bakanligi)
Directorate General of Security
(Emniyet Genel Mudurlugu)
Ilkadir Cadessi 98
06540 Dikmen, Ankara, Turkey
Tel: 90-312-425-2049
Fax: 90-312-468-3346

Ministry of Interior
(Icisleri Bakanligi)
General Command of Gendarmerie
(Jandarma Genel Komutanligi)
APK Daire Baskanligi
Ankara, Turkey
Tel: 90-312-425-3810
Fax: 90-312-418-3510

Turkish Armed Forces Foundation
Ziya Gokalp Cadessi-Atac 2, Sokak No. 43
06420 Kizilay, Ankara, Turkey
Tel: 90-312-435-9180
Fax: 90-312-431-1666

Diversification/Commercial Opportunities

The Turkish market, provides a wide variety of commercial and dual-use trade opportunities for U.S. firms.

Privatization

Although the Turkish Government has been in the process of privatizing its network of State Economic Enterprises (SEE) for the last 10 years, government infighting and constitutional challenges have slowed any real progress to date. The public sector in Turkey remains huge. The SEE portion encompasses industrial sectors such as telecommunications, iron and steel, petrochemicals, petroleum distribution, shipping, airlines, power generation, and defense, as well as public utility companies (both local and central government), agricultural cooperatives, and many service organizations established by local municipal authorities.

The Privatization Administration (PA) is the organization responsible for planning and executing privatization programs of the SEE's. The PA is working to privatize companies which operate in competitive markets. The PA also plans to sell companies that are operating at a loss or those that require substantial additional investment in order to remain profitable. For sensitive industries such as the Turkish Electricity Authority, Turkish Airlines, the telecommunications sector of PTT, Tupras (oil refining), and Petkim (petrochemical industries), the PA is planning to negotiate individual management structures with "core investors," on a case-by-case basis, with the government retaining a role in management. Even this limited privatization will continue to be challenged until a social safety-net for displaced workers can be established and there is sufficient political will to handle the expected fallout. The bureaucratic and legal infrastructure necessary to deal with privatization also must be more fully developed. The most significant Turkish privatization projects are summarized below.

- *Petkim* - Engaged in the production of petrochemical products, this company owns two major plants in Izmir and Yarimca and its production of petrochemicals totals 1,600,000 tons per year. PA's share in this company is 95.9 percent.
- *Tupras* - The largest firm in Turkey with revenues of \$4.0 billion in 1996, Tupras is engaged in the refining of crude oil. Total annual refinery production is approximately 27.6 million tons per year in its four refineries. PA's share in this company is 96.4 percent.
- *Petrol Ofisi A.S. (POAS)* - Engaged in the distribution of petroleum products and the production of lubricants and grease oil, PA owns 96 percent of the shares. POAS is one of the most profitable SEE's and has 61 percent of the petroleum distribution market in Turkey. A minority share is scheduled to be sold to a "core investor" who will acquire management control.
- *Erdemir* - This is the only integrated flat-steel manufacturer in Turkey with crude steel production capacity of 2 million metric tons per year. PA owns 51.7 percent of this profit maker.

- *Turkish Airlines (THY)* - Serves more than 20 domestic and 51 international destinations. The company's current fleet is composed of 28 Boeing 737-400's, Bae RJ-100's, seven Airbus 310-304's, seven Airbus 310-203's, four Airbus 340-300's, three Boeing 727-200's (cargo), and three Bae RJ-70's, totaling 65 aircraft with a seating capacity of 9,880 passengers. THY will be privatized to a "core investor" who will have management control.
- *Turkish Cargo Lines* - With over 40 ships, providing sea transport to the United States, Europe, and the Far East, this organization will also be privatized to a "core investor" who will have management control.

Environment

Demand for a whole range of environmental systems has accelerated with the establishment of the Ministry of Environment in 1991. Recently, a requirement for an environmental impact assessment (and solutions) for new projects was instituted. Flue gas desulphurization, water and wastewater treatment, medical waste incineration, solid waste management, and vehicle emissions control are among the promising areas for sales.

Airport Ground Support Equipment

Demand for ground support equipment is expected to grow due to the continuously increasing number of air passengers, the expansion and modernization of existing airports, and planned new airports. U.S. airport ground support equipment enjoys a good reputation in Turkey. The demand for airport ground support equipment in 1996 is estimated at \$21 million and is expected to increase at an average rate of 20 percent during the next three years.

Electronics

In 1996, total Turkish electrical-generating equipment demand was estimated to be \$370 million. Approximately 90 percent of total market demand is met by imported equipment. Turbines, generators, and boilers for thermal and nuclear power plants and co-generation power plants are currently the best prospects. During the 1995-1996 period, an estimated \$21 billion of investments will be made in electrical energy. In addition, the Turkish market demand for medical equipment is expected to continue growing, particularly in sophisticated laboratory and computerized equipment and items for nuclear medicine, cardiovascular surgery, and x-ray.

There is no local production of electronic-integrated circuits in Turkey and demand is expected to be strong for the next several years. American electronic-integrated circuits are used primarily in the high-tech military sector, as opposed to the more crowded consumer electronics market.

Telecommunications

The Turkish telecommunications sector still needs to grow in sophistication. Turkish government policy is also moving towards privatization of telecommunication services, VSAT Network Systems, IBS Satellite Earth Stations, and a GSM mobile telephone system. Radio and TV transmission systems and antennas, studio equipment, and outside broadcasting vans supporting the development of private radio and TV companies will be in high demand.

Government Points of Contact

Listed below are key points of contact within the Turkish Ministries for the commercial product areas described above.

Ministry of Environment
General Directorate of Environmental
Pollution, Prevention and Control
Eskisehir Yolu - 8 KM
Ankara, Turkey
Tel: 90-312-285-1040
Fax: 90-312-285-5875

Ministry of Energy and
Natural Resources
Konya Yolu
06100 Bestepe, Ankara, Turkey
Tel: 90-312-222-4059
Fax: 90-312-223-4084
Contact: Mr. Ugur Dogan
Undersecretary

DHMI -Directorate General of State
Airports Administration
Bahcelerarasi Cadessi
06330 Etiler, Ankara, Turkey
Tel: 90-312-212-2566 or 2112-2567
Fax: 90-312-212-5222
Contact: Mr. Mustafa Ozatamer
Director General

Ministry of Health
Research and Planning Department
06434 Sıhhiye, Ankara, Turkey
Tel: 90-312-433-7777
Fax: 90-312-434-4602

TEAS- Directorate General of Turkish
Electricity Production and Transmission
Corporation
Inonu Bulvari 27
06440 Bachelievler, Ankara, Turkey
Tel: 90-312-222-9536
Fax: 90-312-222-9890
Contact: Mr. Afif Demirkiran
Director General

Turk Telekom, Inc.
Department of Study, Project and
Investments
Samsun Yolu Kavşagi
06101 Aydinlikevler, Ankara, Turkey
Tel: 90-312-555-1408
Fax: 90-312-313-1495
Contact: Mr. Mehmet Tasaltin
Head of Department

DSI- Directorate General of State
Water Works

TGM- Directorate General
of Radio
Communications
Ulaştırma Bankanligi Sitesi
91 Sokak No. 3 - 5th Floor

Inonu Bulvari
06100 Yucetepe, Ankara, Turkey
Tel: 90-312-418-3409
Fax: 90-312-418-2498
Contact: Prof. Dr. Dogan Altinbilck
Director General

Emek, Ankara, Turkey
Tel: 90-312-212-3800 or 212-3801
Fax: 90-312-221-3226
Contact: Kamil Ergenekon
Director General

Doing Business in Turkey

Generally, U.S. products enjoy a good reputation in Turkey. However, sales of U.S. products to Turkey may be affected by some regulations that apply to both commercial and defense transactions. These regulations are briefly described below.

Proposals and/or quotations submitted to SSM (and/or Turkish Ministry Of Defense) are evaluated initially to ensure technical compliance with Turkish Armed Forces operational requirements. For major co-production projects, the following aspects are considered as vital points: technology transfer, offers for research and development activities in plants and facilities to be established in Turkey, amount of national content, and net flow currency abroad.

Turkish State Tender Law (No. 2886) governs preparation and administration of procurement. Articles 51 (P) and 89 cover foreign procurement. Copies of these laws and regulations may be obtained through the Turkish Embassy, Office of the Chief Counselor for Economic and Consumer Affairs, in Washington:

Office of the Chief Counselor for Economic and Commercial Affairs
Embassy of the Republic of Turkey
2523 Massachusetts Avenue, NW
Washington, D.C. 20008
Tel: 202-483-5366 or 483-6366 or 483-6367
Fax: 202-328-6055

There is no pre-qualification requirement for bidding on Turkish defense procurements. U.S. firms wishing to participate in Turkish defense procurements should register themselves as qualified bidders with the Ministry of Defense Affairs Department. U.S. firms should request that their company's name and address be entered on the potential bidders list. This office is also a good contact for general procurement information.

Government purchasing agencies may ask company representatives submitting bids to provide additional information and to lower their price proposals when the tender proposal is evaluated. A contract award is normally made to the lowest bidder. Although price is a

significant factor, the quality of equipment or service, delivery schedule, availability of spare parts, and previous experience with the supplier will all influence the decision. Contracts may be awarded without competition if the agencies are authorized by the Council of Ministries to do so. Sometimes, a pre-qualification statement is required prior to submission of proposals.

Local Agents

Sections 116 to 143 of the Turkish Commercial Code (Law No. 6762, dated June 29, 1956) govern agents in Turkey. However, agency agreements are private contracts between two parties and their stipulations vary, depending upon the specific contract. There are no fixed commission rates; however, the agency must receive the commission within six months after payment is received by the principal exporting firm. Under the same law, either party may, with three months' notice, terminate an agency contract made for an unspecified period of time. Terminations without cause require compensation.

Turkey is a member of the World Trade Organization (WTO), formerly General Agreement on Tariffs and Trade (GATT), and regulates its customs practices in line with WHO requirements. Turkish intellectual property protection is inadequate and Turkey is on the U.S. Government's priority watch list for property rights violations.

U.S. Government Points of Contact

The following is a list of useful points of contact for U.S. firms interested in the Turkish market.

U.S. Embassy:

James A. Wilson
The Commercial Service
American Embassy
PSC 93, Box 5000
APO AE 09823
Tel: 90-312-467-0949
Fax: 90-312-467-1366

Thomas Bruce
Political Military Affairs Counselor
American Embassy
PSC 93, Box 5000
APO AE 09823
Tel: 90-312-468-6110, Ext. 2235
Fax: 90-312-468-4775

Office of Defense Cooperation
Joint Programs Directorate
64 Ismet Inonu Bulvari
Ankara, Turkey
Tel: 90-312-418-9503
Fax: 90-312-425-5242

Turkish Business Associations:

Turkish-American Businessmen's Association

Barbados Bulvari- Eser Apt. No. 48/5

80700 Besiklas, Istanbul, Turkey

Tel: 90-212-274-2824

Fax: 90-212-275-9316

Contact: Mr. Bulent Senver

Chairman

SASAD- Savunma Sanayii Imalatcilari Dergeneri

(Defense Industries Manufacturers Association)

Katip Celebi Sokak 2/11

06680 Cankaya, Ankara, Turkey

Tel: 90-312-440-5566

Fax: 90-312-440-5567

UNITED KINGDOM

UNITED KINGDOM

Overview

Political stability, low rates of direct taxation, assured intellectual property rights, a flexible labor market, first-class financial markets, and membership in the European Union (EU), make the UK an especially attractive market for U.S. exporters and investors. Market entry for U.S. firms is greatly facilitated by a common language and legal environment, and similar business institutions and practices.

For the last 17 years, the UK Government has pursued policies to reduce the role of the state in the economy, cut public spending, and revive UK industry. Specific measures that have been included: tax reforms; privatization of state-owned industries and utilities; deregulation of financial services, telecommunications and transportation; and labor law reforms. As a result, the UK has experienced a period of sustained, if modest, economic expansion driven by a leaner, more competitive business sector. The UK Government wants to ensure a stable economic environment with low inflation and sound public finances, and to provide an infrastructure able to sustain this positive business development.

Defense Industry Environment

The UK defense budget

The UK defense budget for fiscal year 1996 is just over US \$33 billion, of which approximately 42 percent is designated for procurement and R&D. This amount represents about 3.5 percent of GDP, and breaks down as follows (in U.S. dollars): \$5.3 billion for the acquisition of air systems, \$3.1 billion for sea systems, \$2.4 billion for land systems, and \$3.1 billion for general support. An additional \$900 million is included for total R&D. Over the next two years, a small decline, in real terms, in UK defense expenditures is anticipated, with a relatively consistent proportion being devoted to procurement and R&D. Current planned expenditures for 1997 and 1998 are \$34 billion and \$35.1 billion, respectively.

Domestic Industry Structure

The defense industry is now largely privatized: the formerly Government-owned Royal Ordnance Factory (ROF) ammunition production business was sold to British Aerospace; the ROF armored fighting vehicle business was sold to Vickers PLC; and the Royal Naval Dockyards at Devonport and Rosyth are being operated by management buy-out teams. The UK defense industry is dominated by three large contractors (British Aerospace, GEC-Marconi, and GKN), as well as by a second tier of smaller, more specialized companies.

Major defense contractors include:

- *British Aerospace PLC* - Military aircraft, artillery and ammunition, simulation and training systems, missiles and space equipment.
- *Cobham PLC* - In-flight aircraft refueling systems, pylon-mounted equipment, helicopter equipment, carrier above and below-deck handling equipment, targets and drones.
- *General Electric Co PLC* - Command, control and communications equipment; radar, sonar and guidance equipment; surface warships and submarines.
- *GKN Defence Ltd* - Light/medium tracked and wheeled armored vehicles.
- *Hunting Engineering Ltd* - Guided and ballistic missiles, payload delivery systems, launchers, decoy systems, warheads, runway/area denial mines, and ordinance disposal equipment.
- *Marshall of Cambridge (Engineering) Ltd* - Maintenance and modification of fixed wing aircraft and helicopters.
- *Racal Electronics PLC* - Radio communications, radar and avionics, mine countermeasures, microwave components and subsystems, security systems.
- *Rolls-Royce PLC* - Ship, aircraft, and tank engines.
- *Short Bros PLC* - Aircraft, armor, and missile systems.
- *Smiths Industries PLC* - Avionics and fuel systems.
- *Vickers PLC* - Main battle tanks, combat engineering, and bridging equipment.
- *Vosper Thornycroft Ltd* - Warship design and construction, naval systems integration.
- *Westland Group PLC (owned by GKN)* - Helicopters, hovercraft, weapon systems integration.

Defense Opportunities

The major areas with opportunities for defense equipment sales are: aircraft and related parts, electronics industry production and test equipment, electronic components, airport and ground support equipment, lasers and electro-optics, and telecommunications equipment. Architectural and construction engineering services and computer software and services present the best prospects for future service-sector business.

Future upgrade opportunities, including service, support, and logistics, will be found in cruise missile systems, parts for fixed-wing aircraft and helicopter maintenance, and aircraft replacement programs and mission systems integration technology for various major equipment procurement programs (as prime contractor or subcontractor). Best prospects for subcontracting are in the electronic systems and telecommunications equipment fields.

Leading defense competitions for new systems and major platforms during the next two years include: ASTOR ground surveillance aircraft, BOWMAN combat radio, tactical reconnaissance armored combat equipment requirement (TRACER), unmanned aerial vehicles, common new generation frigate (CNGF), joint strike fighter, sonar 2087, and the future medium-range air-to-air missile (FMRAAM).

MOD Defense Plan

The MOD's defense plan is based on the "front line first" principle, which proposes to eliminate the unnecessary and maintain the essential. Front line forces are given priority with the intention of maintaining their capability, while cutting costs elsewhere. As a result, rear-echelon supply and support units bear a large share of the budget cuts and stocks of munitions and spares are reduced.

Despite severe budgetary pressures, the UK government does not have a formal policy to protect its core defense industrial base. The MOD's "Best Value for Money" procurement policy has forced UK defense companies to rationalize the industrial base in order to remain competitive internationally. Senior UK MOD officials have, however, indicated that certain sectors of the defense industrial base (aerospace, tanks, shipbuilding and nuclear technology) will not be allowed to perish. Increased emphasis on UK "Industrial Participation" (offsets) in contracts awarded to offshore firms is used to bolster strategic economic sectors and maintain quality jobs.

Defense Procurement Process

The NATO nations have reciprocal procurement Memoranda of Understanding (MOU) that apply to defense equipment. These agreements represent an effort by each government to look at each other's military equipment first to satisfy their requirements. Of all our military allies, the UK enjoys the closest operational relationship with U.S. forces. As a result, many UK procurements of American, or U.S.-compatible defense equipment, have been made over the years.

UK defense equipment acquisition programs are driven by operational requirements, much like in the United States. The Central Staff (land, sea, air, and joint systems) are responsible for defining these requirements. Once approved for acquisition, the MOD's procurement executive acts as the main executive agent for program competition in the UK. The U.S. Embassy Office of Defense Cooperation (ODC) maintains a close liaison with all of these

organizations. Additionally, the MOD's new suppliers services and defense export services organizations are excellent sources of information for U.S. companies interested in learning more about the procedures for getting on the MOD's defense contractors list, the MOD's acquisition organizational structure, and UK industry points of contact for teaming and subcontract possibilities.

Every two weeks, the MOD publishes the "MOD contracts bulletin," which lists military purchasing requirements exceeding 500,000 pounds sterling (approx. US \$845,000) or 250,000 pounds sterling (approx. US \$422,500) for consultancy and clothing contracts. The bulletin is available from:

Cequel Publishing Ltd.
P.O. Box 1335
Lewes, East Sussex
BN7 3ZF
Fax: 011-44-171-931-8377

Purchasing

The MOD procurement executive is currently being restructured, and is relocating to Abbey Wood near Bristol. The relocation, expected to be complete in 1997, will consolidate the procurement executive, allowing for efficiencies and savings in personnel strength and support costs. MOD requirements are generally purchased in one of three ways: directly through MOD contracts branches (located in London, Bath, Glasgow, Liverpool, Portsmouth and Weymouth), by designated local purchase officers of MOD/service units and establishments in the UK and overseas, or indirectly through subcontracts placed by MOD prime contractors.

To the maximum extent possible, the MOD purchases its requirements through direct contracts. The MOD's acquisition policy employs competitive "firm fixed price" contracting, wherever possible, and the MOD will rarely fund development costs for a program. The majority of its requirements are focused on "off-the-shelf" purchases, often requiring contractor development. The MOD's policy is to amortize this cost over the production run of the system.

In procurements valued in excess of 10 million pounds sterling (US \$16.9 million), non-EU bidders are "invited" to bring defense-related work to the UK. This industrial participation requirement has led to U.S.-UK commercial alliances that often benefit both countries. In some programs, U.S. contractors have chosen a UK firm to lead the bidding as a prime contractor in order to overcome any "buy national" competitive advantage which local competitors may possess.

Specific agencies and privatized entities are responsible for purchasing certain types of goods and services. For example, the *Central Computer and Telecommunications Agency (CCTA)* procures administrative, general-purpose and scientific computers and related software

packages that will not be incorporated into a weapons system. Interested firms should contact MOD's industry liaison officer for advice before directly approaching the CCTA.

Diversification/Commercial Opportunities

A commitment to maintain the UK's defense capability in an ever-decreasing budgetary environment has intensified MOD's search for best value solutions that often incorporate commercial-off-the-shelf (COTS) technology. Although recent collaborative programs and proposals favor European defense cooperation over transatlantic partnerships, there are a number of procurement opportunities for U.S. defense firms in this country.

The UK Government continues to insist that all departments apply its "competing for quality" policy to all services they perform. Competing for quality is the process by which any activity, previously performed in-house, is exposed to competition from the private sector in order to establish the best value for money. For the MOD, this policy has resulted in such traditionally in-house tasks as aircraft maintenance, flight training, and academic instruction being contracted out to the private sector. This policy advocates searching for alternate suppliers and generally allows U.S. bidders to compete for business on an equal basis.

Dual-use and related technology fields

Decreases in defense-related spending have caused British defense contractors to turn, increasingly to civilian products and services, including the production and operation of systems for: aviation, marine and road traffic management; police, fire, and emergency services; weather forecasting; medical technology; industrial imaging; contract research and development; oceanology services; and land remediation. In the aerospace sector, civil aircraft programs have kept much of the UK's airframe manufacturing capacity intact. UK manufacturers will consider U.S. firms as subcontractors in sectors that use technologies such as advanced manufacturing techniques, specialty metals, and composite materials.

Key Non-Defense Ministries

Non-defense ministries and government agencies that have cushioned the impact of defense spending cuts through placing private-sector contracts include the Civil Aviation Authority (CAA), the Home Office, and the Departments of Health, Environment, Trade and Industry, and Transport. In addition, the Treasury and the Department of Social Security have ambitious plans to streamline both the collection of taxes and the payment of benefits, which will probably involve out-sourcing of current in-house activities to companies that are traditional defense industry contractors.

Certain agencies are responsible for defense construction work, including new buildings and extensions, as well as repairs and maintenance:

- *The Buying Agency* - furniture and furnishings, domestic equipment, some mechanical and electrical equipment.
- *HM Stationery Office* - Stationery and office supplies (including office machinery). Technical specifications are usually included in the request for proposal or bid package. If they are not included, specifications may be obtained from the address given in the tender document.
- *Contracts* - While the MOD does not have an equivalent of the U.S. Federal Acquisition Regulations, there is the "Standard Conditions of Government Contracts for Stores Purchases" (GC/STORES/I). In addition, the MOD has a list of special defence contract conditions (DEFCON). This information is available from the MOD Directorate of Standardization/Stan 1.

Contract Provisions

MOD basic patent/technical data rights contract provisions are also contained within its standard conditions and DEFCON forms. Ownership of intellectual property rights generally resides with the design contractor, while the MOD retains free user rights for its own purposes, including seeking competitive bids for production.

For large contracts of long duration, interim or progress payments may be negotiated. Payments are made against the completion of achievement milestones, with a significant percentage of the price retained until the satisfactory completion of the contract. Contracts include a timetable for the submission of invoices. Invoices are normally paid within 7-10 days of the specified submission date.

The prime contractor is ultimately responsible for the selection of its subcontractors. The MOD does not normally interfere with the relationship between the prime and its subcontractors. However, maximum competition between subcontractors is expected. MOD practice in this area is outlined by DEFCON Guide No. 8, the "Code of Practice for Competitive Subcontracting."

Contract administration is normally managed and performed by the procuring department staffs, which may be assisted, where necessary, by quality assurance, technical and finance personnel.

Pre-award Surveys

The UK usually relies on U.S. official assistance in performing pre-award surveys to assess the technical and financial competency of U.S. suppliers. A bilateral audit agreement between the U.S. and the UK enables each country to accept the other's audit standards.

Classified Information

UK classified program documentation must be handled in accordance with the U.S./UK general security agreement. The U.S. Embassy's ODC can assist U.S. industry in the data transfer process. Facilities must be security approved before classified contracts information may be supplied. Personnel must be approved for access to related classified information in order to attend classified conferences or seminars. The unwritten practice is to require a clearance level one step above that of the related information.

Restrictions on Foreign Competition

Competition is the cornerstone of MOD policy. In accordance with its own open competition policy, the MOD will acquire defense equipment from foreign sources when the advantages of cost, performance, and delivery schedule outweigh the benefits of buying the British alternative. The main exceptions to this policy include the hull and superstructure of warships (not including support systems), nuclear weapons and propulsion systems, toxic and radioactive agents, and cryptographic equipment. There may be additional exemptions for reasons of national security or urgency. There are no exemptions, however, based on a policy of support for the domestic industrial base.

Dispute/Challenge System

Notices to unsuccessful bidders are always sent out; and the extent of the debriefing generally relies on the size and complexity of the project. There are no procedures, however, that require the award of a contract to be deferred if a pre-award protest is lodged by the contractor. The decision by the MOD with respect to contract awards, regardless of any challenge, is usually final and conclusive.

Duty-free Entry Certificates

The department awarding the contract arranges for the duty-free entry of defense goods, notifies Customs and Excise at the port of entry, and provides the contractor or his freight forwarder, with the required documentation.

Doing Business in the U.K.

The UK remains the United States' largest European market and fourth largest worldwide after Canada, Japan and Mexico. In 1995, American exports to the UK reached \$28.3 billion, generating a \$1.9 billion U.S. trade surplus. The UK market is based on a commitment to the principles of free enterprise and open competition and international trade is vital to its economy. The absence of major trade barriers and the relative ease of doing business ensure that the UK remains an attractive marketplace.

The UK imposes few impediments to foreign ownership and no restrictions to the free flow of capital. Its regulatory environment is pragmatic, featuring a de-regulatory trend consistent with the Government's intention to provide a stable and unfettered commercial environment in which private enterprise can flourish. Within the EU, the government has shown itself to be a strong defender of the rights of any British-registered company, irrespective of the nationality of its ownership.

Trade and Export Controls

There are no major barriers to U.S. contractors in the UK defense sector, aside from those previously mentioned: the attraction toward European-wide defense production consortia, and the existence of various national security exclusions, and industrial participation requirements previously mentioned. U.S. industry officials have pointed to the U.S. defense export licensing process as a critical factor in the successful bidding for, and award of, UK acquisition contracts. The U.S. Embassy's Commercial Section and the ODC can be of assistance in supporting U.S. contractor applications.

U.S. Government Points of Contact

The U.S. Embassy's Commercial Section and its ODC are both excellent sources of information on the UK defense industry. They provide information on UK industrial capabilities, as well as various advocacy and consultancy services.

U.S. Embassy
24 Grosvenor Square
W1A 1AE London
United Kingdom

Office of Defense Cooperation (ODC)
Tel: 44-171-629-8028

The Commercial Service
Tel: 44-171-408-8019/8046

UK Government Points of Contact

Ministry of Defence

Defence Suppliers Service
Maple 2B #22
Abbey Wood
P.O. Box 702

Bristol BS12 7DU
Tel: 44-1179-132-844

Directorate of Standardization/Stan 1
Room 5138, Kentigern House
65 Brown Street

Glasgow G2 8EX
Tel: 44-141-248-7890, ext 2532

Competing for Quality Team
Room 432, Northumberland House
Northumberland Ave
London WC2N 5BP
Tel: 44-171-218-0221

UK Trade Associations

Association of Electronics,
Telecommunications and
Business Equipment Industries
Russell Square House
10-12 Russell Square
London WCLB 5EE
Mr. Robert F I Cook, Director General
Tel: 44-171-331-2000

Society of British Aerospace Companies
(Organizer of the Farnborough Air Show)
60 Petty France

London SWLH 9EU
Tel: 44-171-227-1000

Electronics Components Industry Federation
Romano House
399-401 The Strand
London WC2R OLT
Dr. J C J Thynne, Director General
Tel: 44-171-497-2311

British Naval Equipment Association
Fourth floor
30 Guildford Street
London SEL OH6
Commander Mark Whelan (RN-RETD),
Director
Tel: 44-171-928-9199

Defence Manufacturer's Association

Marlborough House
Headley Road
Grayshott, Hindhead
Surrey GU26 6LG
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Tel: 44-171-839-3231

SECTION III:
DOING BUSINESS WITH NATO

INTRODUCTION

The potential for an increase in the number of NATO members and NATO emphasis on high technology equipment, along with the recent restructuring of forces, makes NATO an attractive option for U.S. firms supplying a wide variety of products and services. The implementation of the enhanced NATO's Partnership for Peace program and the expansion of the alliance to Central Europe also provide increased business opportunities.

The objective of the report is to assist U.S. firms planning to compete in the NATO Security Investment Program (NSIP) and other NATO-funded programs tailored to meet NATO's infrastructure requirements. The term "infrastructure" denotes buildings, pavements, waterfront structures, and other permanent installations, such as airfields, missile sites, communications, command and control and air defense systems (including radars), electronic equipment and in-place storage facilities for war materiel and ammunition required to support forces assigned to the North Atlantic Treaty Organization (NATO). The definition of infrastructure includes some mobile installations that have functions similar to those of fixed installations (for example, mobile war headquarters).

Success in winning NSIP and other NATO-funded contracts can provide a vehicle for U.S. firms to gain access to non-NATO national military or commercial contracts in Western Europe. This applies particularly to small and mid-sized firms which may not have considered NSIP or NATO programs in the past.

While troop levels within NATO are likely to continue to decline in future years, the importance of a ready and viable infrastructure is more vital to NATO now than ever before. The range of infrastructure requirements can vary from specialized high technology items to off-the-shelf civilian consumables.

The main body of this report provides background information on the NSIP and describes the procedures to be followed when responding to NATO procurement contracts. It begins with a brief description of the program, followed by practical information on how to participate in NATO tenders. Similar procedures are followed in the case of the NATO Maintenance and Supply Agency NAMSAs, and the NATO Consultation, Command and Control Agency (NC3A).

The information in this report does not apply to procurements by individual NATO members that are not funded by NATO. Facilities and capabilities planned solely for the use of national forces not committed to NATO are called National Infrastructure and are paid for out of national defense budgets.

NATO SECURITY INVESTMENT PROGRAM (NSIP)

All NATO members participate in the NSIP. The current budget for the NSIP is estimated at about 190 million NATO Accounting Units (NAU), a basket of NATO member currencies, or about \$800 million, with program planning being revised to reflect the new requirements and areas of emphasis in NATO's new Strategic Concept. It is likely that the NSIP budget will remain in the 185-190 million NAU range for the 1997-2000 time frame.

Future projects will emphasize support facilities, including:

- computer-assisted exercises
- continued command and control upgrades
 - a: command and control radars (transportable and mobile)
 - b: communications transmission media
 - c: automatic data processing to include Command and Control Information Systems (CCIs) and Management Information Systems (MIS)
- digitalizing NATO's communications system

The program provides for the construction of the following types of projects:

- Airfields and naval bases for military forces stationed outside their own territory.
- Training for multinational units.
- Warning Installations.
- Reinforcement Support.
- ASW and Surface Vessel Warning Installations.

Generally, requests to meet mission Required Capabilities (RC) are made in the form of Capability Packages (CP) prepared and submitted by the major NATO commands (MNCs) and endorsed for Council approval through the NATO Senior Resource Board. These capabilities, in the form of individual projects, are financed collectively by participating nations. The acquisition of real estate, as well as provision of local access and utilities, continues to be a national responsibility.

General Bidding Procedures for NATO Projects

NATO Security Investment Program projects normally are contracted under the principle of international competitive bidding (ICB). This is done to:

- Expedite implementation of approved infrastructure projects so that operational needs are met and unnecessary cost increases are avoided.
- Avoid discrimination against firms from participating countries interested in bidding on infrastructure projects.
- Assure procurement at the lowest technically compliant cost.

By obtaining facilities and equipment at the lowest cost to NATO, countries financing these projects get the most for their money, in terms of defense and monetary value, while minimizing commercial pressures on NATO military and technical staffs. Detailed procedures on this subject are available in North Atlantic Council Document AC/4D/2261, Procedures for International Competitive Bidding for Commonly Financed NSIP Works, (1996 Edition).

In all cases where an ICB is prescribed, host nations must ensure that eligible firms of all participating countries are given the same opportunity and that the bids of all eligible competitors are treated in the same way.

Notification of Intent to Invite Bids

While there are some variations on requirements for notification of intent to invite bids, the general guidelines described below are followed within NATO.

A host nation should issue a notification of intent at the earliest possible time, preferably before the request for authorization to commit funds is submitted. The notifications are sent to the Commercial Service at the pertinent U.S. Embassy, which then assembles the list of interested U.S. firms in coordination with the Department of Commerce in Washington.

Notification should be published at least 28 days in advance when security clearances are required and 35 days before the final date when firms must make known their desire to bid.

Formal notifications of intent to invite bids should include the following information:

- A project summary that specifies the cost estimates for the project, the relevant NATO document reference numbers, and the time allowed to complete the contract.
- Final date when firms must have indicated their interest in bidding.

- Date when the host nation intends to distribute the "cahier des charges." (Bidding document issued by a host nation containing technical, administrative and contractual requirements and conditions)
- Closing date for bids.
- Bid validity date and applicable procedures after that date.
- Type and level of classification of information regarding the program and bidding process.
- Address and phone numbers of agencies or bureaus involved in the call for bids.
- Program identifying reference numbers.
- Method of bidding.

NSIP projects are usually denominated in NATO Accounting Units (NAU). The NAU is a unit of measure based on the exchange rates of the 16 NATO members, and is reevaluated every three months. As of 1 July 1997, 1 NAU equals 3.919 U.S. dollars.

Publication of Tender Opportunities in the United States:

To inform U.S. firms of projects that are open to international competitive bidding in this program, the following procedure is followed:

- Member nations notify the Commercial Service section (CS) of the U.S. Embassy in their respective countries of projects open to ICB.
- Information on projects considered to be worthwhile and competitive to U.S. firms is sent to the U.S. Department of Commerce.
- The Department of Commerce makes this information available primarily through announcements in Commerce Business Daily (CBD) and through the Trade Opportunities Program (TOP).

Additional information regarding the CBD and TOP may be obtained through the Commercial Service of the Department of Commerce in Washington or from the Department's District Offices throughout the U.S. Classified documents pertaining to a bid may be handled through the U.S. Embassy in the host nation which forwards the documents to the Department of Commerce for transmittal to the interested U.S. firms. The documents may also be sent by the host country to its Embassy in the U.S., which transmits them to U.S. firms via the Department of Defense (DOD) Defense Investigative Service (DIS).

Classified NATO tender documents may not be picked up from the issuing agency by company representatives (except with courier credentials) and brought to the U.S.; they must be obtained from the Commerce Department, DOD, or the host nation's Embassy in the U.S.

Unclassified tender documents and all subsequent addenda and follow-on documents, including related communications from procuring agencies, are forwarded directly to participating firms.

The NSIP Procurement Process

After NATO authorization of a project, the host nation notifies nominated bidders of its call for bids (the Request for Proposal or RFP). As a rule, the awarding and administering of contracts is the sole responsibility of the host nation, which could be either a territorial host nation or a NATO Agency or procurement organization.

Interested bidders must work with the appropriate government authorities of the host nation. Exceptions to this rule may be found. For example, programs associated with the NATO Communications and Information System (NICS) are handled by the NATO C3 Agency in Brussels.

In addition to meeting the technical specifications in the tender, additional information or steps may be required prior to submitting the bid. These include certification by the U.S. Government which is briefly described below.

Certification by the U.S. Department of Commerce

To participate in a NATO ICB, U.S. firms must be certified by the U.S. Department of Commerce as technically and financially competent. The first point of contact for U.S. firms seeking certification is the NATO Project Officer at the Office of Telecommunications (see ADDRESSES).

They must also obtain the DIS security clearances necessary to participate in the NATO procurement in which they have expressed an interest.

After this information has been supplied to and verified by Commerce, the firms are then placed on a Consolidated List of Eligible Bidders and do not need to be re-certified as eligible for subsequent tenders.

Certification of a U.S. firm's overseas facilities is not provided by the Department of Commerce, but by the NATO country in which the facilities are incorporated, regardless of stock ownership.

U.S. firms desiring certification (except for overseas facilities) should submit the information listed below on form ITA 4023P, *Application for NATO ICB Bidders' List*, which is available from the U.S. Department of Commerce, Office of Telecommunications.

One copy of ITA 4023P must be completed by each domestic facility, subsidiary, or branch of any company that plans to bid on NATO ICB projects. Each request for certification must provide the following information:

- A resume of the firm's operations, with special reference to similar work performed for the U.S. Government or for other countries.
- A current annual report, including the firm's balance sheet, or a financial statement prepared by a CPA, must accompany the completed ITA form 4023P when it is returned to the Commerce Department.
- Level of facility and storage security clearance, if any, provided by DIS.
- For participation in classified projects and receipt of classified documents, firms must have the appropriate security clearances and a NATO briefing from DIS.

Commerce notifies the host nation concerning the degree of facility and safeguarding clearance available, which enables the host nation to transmit the appropriate level of classified material to a prospective U.S. bidder. If a firm has no security clearance on record, DIS will process a clearance on request from Commerce following the pertinent company's approval. Processing of such clearances normally requires between 30 and 90 days. Lack of security clearance does not preclude a firm, which is otherwise qualified, from filing a request to bid on unclassified NSIP projects; however, virtually all such projects have some form of security classification.

U.S. firms are advised that they must immediately notify the NATO Project Officer, at the Office of Telecommunications (see ADDRESSES), of any change in address, company name, contact point, or other changes which could affect the firm's status on the NATO database of eligible bidders. Once certified, the firm may be nominated to bid on projects in all NATO host countries, without any subsequent or additional certification. However, a firm interested in individual NATO projects must be nominated OR certified by Commerce for each project. Countries letting bids may require firms to submit statements outlining their experience and qualifications for a specific project prior to submission of individual bids.

Any U.S. firm seeking contracts for NATO projects is required to comply with the normal regulations of the host nation regarding foreign firms doing business within their national boundaries. Payment is in accordance with the host country's regulations and is a matter of mutual agreement at the time a contract is awarded.

The Department of Commerce will assist U.S. firms, whenever possible by requesting additional information on NATO projects and extensions of bid deadlines and by transmitting the classified tender documents overseas. All firms must comply with U.S. security laws and regulations.

Standard Industrial Classification (SIC) Codes:

SIC codes are required when filling out the ITA 4023P form. Firms must list the products and services they wish to provide for NATO procurement opportunities. All certified firms are placed in a NATO database at Commerce which lists, by SIC code, the products and services the firm has to offer. The list is useful for NATO procurement opportunities in which there is an unusually short turnaround time and the NATO Projects Officer must generate a list of eligible bidders quickly. Firms are therefore encouraged to list the SIC codes for as many products and services as they are able to provide. The SIC codes are described in the Standard Industrial Classification Manual, 1987 which is available for \$30.00 from the U.S. Government Bookstore (GPO) (see ADDRESSES) The SIC manual is also available from the Commerce Department District Offices, located throughout the country, and most public libraries.

Standardization Agreements

Upon receipt of a NSIP tender, there may be a reference to what is known as a NATO Standardization Agreement or STANAG. The term Standardization within NATO is the process of developing concepts, doctrines, procedures and designs to achieve and maintain the most effective levels of compatibility, interoperability, interchangeability and commonality in the fields of operations, administration and materiel. STANAGS may be required to determine and/or meet specifications of NATO tenders.

The STANAG process encompasses a wide range of areas, depending on the particular STANAG activities involved. Operational STANAGS strive for the use of common concepts, doctrines, procedures, practices or formats to enhance interoperability and/or interchangeability in the development, procurement and support of materiel systems and combat supplies for Alliance forces. Materiel standardization relates to the development, procurement and support of materiel systems and combat supplies for forces. Unclassified STANAGS for NSIP RFP's can be obtained from the DOD SSP office at the Department of Defense. (see ADDRESSES)

Extensions of Requests for Proposals

NSIP tenders that are competed under ICB procedures should not have a closing date for bids less than 84 days after issue for large-scale projects and 42 days for other works and supplies which utilize the "cahier des charges" process.

If additional time is required for translation of bids, an additional 21 days will be allotted. Requests for an additional 21 days or less following the initial closing date will be granted automatically. Requests for more than 21 days are the discretion of the host nation.

Extensions are also available to respond to requests for clarification of a bid. Requests for clarification or for a bidders conference must be made 28 days prior to the bid closing date. For the purpose of querying the consequence of those changes, or requesting a revision of a

changed specification, this new date will then be considered the bid closing date. Such queries are to be submitted no later than 14 days prior to the new closing date.

Requests for extensions must be made by representatives of the firm's country of origin. When extensions are granted, the host nation must notify the representatives of the other countries. For extension of RFP's, reviews of specifications, or disputes of any nature, U.S. firms should contact the U.S. Mission to NATO. (see ADDRESSES)

Evaluation of Bids

Standardized NATO procedures are followed to avoid discrimination in evaluating bids. However, contrary to NATO rules, host nations may try to deviate from these procedures to the benefit of their own industry. Host nations are encouraged to discuss and clarify bids being offered by companies during the evaluation process, but no alterations of the bids are permitted. Bids will be evaluated without duties or taxes. When host nations do not exempt a NSIP contract from taxes and duties, contractors should add to their basic bid the expected taxes and duties.

Award of Contracts

Within this system, contracts are awarded to the lowest, technologically compliant bidder. If the host nation seeks to award a contract to any firm other than the lowest compliant bidder, it must seek the approval of the NATO Infrastructure Committee. If a low bidder is deemed non-compliant and not awarded a contract, the firm is notified in writing. A company has 21 days upon receipt to protest a non-compliance notification through the U.S. Mission to NATO (see Section 3, ADDRESSES), which should be contacted immediately.

Disputes

U.S. firms are strongly encouraged to request clarifications to the RFP or reviews of the technical bid specifications no later than 14 days prior to the original bid due date if they have any questions about the RFP or believe it is discriminatory in any way. If, however, a U.S. firm is discriminated against by a host nation during the course of a NATO procurement, the firm should immediately contact the U.S. Mission to NATO, which may file a potential dispute against the host nation on behalf of the firm.

NSIP contracting includes a formal binding dispute settlement process. However, prior to going to binding arbitration, attempts will be made to resolve contract disputes informally. NSIP disputes are limited to the following areas:

1. Discriminatory non-observance of procurement procedures;
2. Not allowing a qualified firm to compete for a procurement;
3. Issuing tenders in a manner that prohibits interested firms from competing;
4. Wording of "cahier des charges" in a restrictive manner;

5. Non-observance of ICB procedures against a bidder.

Should a contractor at any point in the procurement process determine that a procurement was being unfairly competed, they should immediately contact the U.S. Mission to NATO, who, if warranted, will submit a formal request to the delegation of the host nation and the Infrastructure Committee. When a formal complaint is made, the host nation will suspend the placing or awarding of contracts. A 21-day discussion period will take place prior to formal arbitration. During this period, parties are encouraged to informally seek a settlement on the proposed contract. The NATO International Staff may be invited to provide a "neutral ear" on the dispute resolution. Subsequent to the discussion period, the NATO Infrastructure Committee will judge the merits of the competing positions, although its findings are not binding on the parties.

The Arbitration Board consists of representatives from three countries not participating in the dispute. There must be at least one hearing with each party involved, with exchanges of memoranda and testimony of technical experts. The Board presents its finding no later than 28 days upon completion of the hearings/meetings. The decision of the Board is final and binding and no further appeals are allowed.

NATO Maintenance and Supply Agency (NAMSA)

There are several NATO agencies that frequently procure a wide variety of products and services and serve as procuring agencies for infrastructure programs. The NATO Maintenance and Supply Agency (NAMSA) is the executive agent of NAMSO, the NATO Maintenance and Supply Organization which is a multinational logistics organization for the provision of coordinated supply and maintenance management and services. NAMSA was established in 1958 to obtain maintenance parts and services needed by the NATO countries for certain military equipment. In addition, NAMSA procures supplies and services for other military equipment at the specific request of NATO countries and organizations (e.g., Infrastructure Committee).

NAMSA provides a wide variety of services, including storage, codification, inventory management of stocks, redistribution of assets, mutual emergency support, in-house and contractual maintenance, and calibration and configuration management.

NAMSA acts through the NATO Supply Center located in Luxembourg. The center deals primarily with logistical support for weapons systems. Examples of the 30 weapon systems and materiel supported by NAMSA include; HAWK, Patriot, TOW, MLRS, Stinger, NIKE, and Sidewinder. NAMSA initiates approximately 1,200 work orders or contracts per year with a value of approximately \$425 million.

Technical support provided by NAMSA includes both technical assistance and equipment which it supports. Technical assistance covers such activities as on-site assistance, preparation of technical specifications for maintenance contracts and the monitoring of surveillance

programs. Configuration management includes data collection and analysis of equipment failures, technical studies, evaluation of equipment modification proposals, and updating technical documentation. In addition, NAMSA performs work in the area of demilitarization which is potentially a growth business due to the new military requirements for the post Cold War era.

Most NAMSA tenders are unclassified; however, a U.S. security clearance, NATO briefing and a facility clearance is required to receive requests for proposals (RFP's) containing classified information graded NATO Confidential or above. NAMSA keeps a source file of contractors to whom it notifies upcoming tenders.

NAMSA procures the following types of items:

repair services for missiles and ground support/guidance equipment, communication equipment, radars, engines, avionics/navigation, test equipment and mechanical/hydraulic assemblies, spare parts in support of national maintenance activities, modifications and equipment upgrades, data collection/defect reporting and analysis, technical publications, technical assistance, and technical surveillance programs for Engineering and Post Design. NAMSA has also done some procurement for the NSIP (radar integration, medium power amplifiers and intense detection systems).

- Ammunition - 155 mm conventional, 105 mm tank, and special ammunition items.
- Infrastructure - radars, pipelines, pumps, engines, detection systems.

U.S. firms that would like to be placed on the NAMSA source list should contact the NATO Supply Center (see ADDRESSES).

U.S. companies are requested to list the specific categories of products and services they wish to provide to NAMSA. NAMSA then may provide additional forms requesting more detailed information on the firm's capabilities. Only firms which have provided NAMSA with this additional information will be accepted and retained in the NAMSA source files. Qualified firms will be contacted when requirements for products and services arise. Firms that are invited to bid on a NAMSA tender will be sent the necessary information and forms. The fact that an offer is submitted implies acceptance by the offeror of the terms and conditions of the request for proposal.

It should be noted that the majority of contracts that NAMSA develops and administers are directly related to the 30 weapons systems NAMSA supports. U.S. firms that have participated as prime or subcontractors in the development and/or production of the weapons systems have the best chance of contract selection. The following is a list of items and services that NAMSA *does not* require at the present time.

- General purpose tools and other workshop equipment machinery (agricultural, woodworking). Railroad equipment.
- Quartermaster type equipment (food, clothing, furniture, etc.) Pharmaceutical and petroleum products.

The NAMSA Procurement Process

The cornerstone principle of NAMSA procurement is the ICB, as applied in other NATO contracts. However, NAMSA makes some exceptions to this rule for industries of member nations that are not fully represented in relation to their government's NATO contributions. Categories have been established to rate member nation's industries. Well-placed industries in the U.S. are well represented in the selection of contractors. NAMSA procurement is normally made on a competitive basis (usually fixed price contracts) with the award to the firm submitting the most acceptable proposal to meet requirements.

When special requirements arise, variations of fixed price contracts may be utilized (i.e., price not to exceed). When frequent demands are expected for certain items or services and the number of sources is limited, a call type or open-end type contract may be negotiated with the supplier, allowing NAMSA to call items or services as the need arises with a predetermined pricing formula.

Further information on subscribing to NAMSA tender publications can be obtained by contacting the NAMSA Liaison Officer in the U.S. or the U.S. Representative to NAMSA in Europe (see ADDRESSES). NAMSA ICB tenders are notified to the U.S. Embassy in Brussels which, in turn, notifies them to the U.S. Department of Commerce in the same manner as the NSIP RFPS. In these cases, U.S. companies must follow the procedures outlined previously for certification and nomination. As with other NATO programs, doing business with NAMSA may lead to other trade opportunities in the defense and/or commercial sector in Europe.

NATO Consultation, Command and Control Agency (NC3A)

The NC3A was established on 1 July 1996 as a key component of the amalgamation of the former SHAPE Technical Center, the NATO Communications and Information Systems Agency (NACISA).

Mission:

- Perform central planning, systems integration, design, systems engineering, technical support and configuration control for NATO C3 systems and installations.
- Provide scientific and technical advice and support to the MNCs and other customers on matters pertaining to operations research, surveillance, air command and control including

theater missile defense, electronic warfare and airborne early warning and control, and communications and information systems, including technical support for exercises and for unforeseen operations assigned to the NATO Military Authorities (NMAs) by the North Atlantic Council (NAC)/Defense Planning Committee (DPC).

c. Perform technical policy and standardization work in support of the Board and its substructure towards the development and maintenance of the NATO Interoperability Framework (NIF).

d. Procure and implement C3 projects as directed.

NC3A activities are executed within three business segments: scientific and technical support, planning and policy development, and system acquisition support.

The Agency's business documentation is based upon this breakdown, and a Five Year Rolling Plan and an Annual Program of Work(POW)consists of projects within each of these three segments.

Organizational Structure:

The Organization of the NC3A consists of a directorate and executive staff, six divisions, two field offices, a financial management office and two services groups as follows:

- Directorate
- Executive Staff
- Field Offices
- Operations Research Division
- Air Command, Control & Sensors Division
- Communications Systems Division
- Information Systems Division
- Plans & Policy Division
- Acquisition Division
- Financial Management Office
- Administrative Services Group
- Technical Services Group

The NC3A Procurement Process

As with NSIP projects, NC3A tenders are forwarded to the Commerce Department's Foreign Commercial Service office in Brussels and sent to Washington, D.C. for integration into the Commerce Business Daily (CBD). U.S. firms interested in competing for NC3A procurements must be certified in order to be considered eligible bidders. For more information on NC3A procurements and contracting processes, contact NC3A in Brussels or access the agency's web site. (see ADDRESSES)

NC3A also procures products and services through basic ordering agreements (BOAs). For more information on BOAs and firms that want to get on the list of firms with BOAs, contact NC3A. (See ADDRESSES)

Additional NATO Agencies

In addition to the agencies described in this section, several NATO agencies procure a wide variety of equipment and services which may provide trade opportunities for U.S. firms. The organizations listed below also forward procurement announcement and tenders through the U.S. Mission to NATO and the Commercial Service in Brussels and U.S. firms are encouraged to contact them for additional information.

NATO Early Warning and Control Program Agency (NAPMA)

Akkerstraat 7

6445 CL Brunssum

The Netherlands

Contract Officer: Mr. A. Egas

Phone: 31-45-5262744

NATO Air Command Management Agency (NACMA)

Rue de Geneve 8

B-1140 Brussels

Belgium

These agencies announce procurements via the U.S. Embassy in Brussels. To participate, U.S. firms must be certified and nominated via the U.S. Department of Commerce using the procedures outlined previously. U.S. Government points of contact for information concerning NATO programs are listed below.

U.S. Embassy Brussels

27 Boulevard du Regent

B-1000 Brussels

Belgium

or

APO FCS/EMB

PSC 82 Box 002

APO AE 09724

Phone: -32-2-513-3830

Fax: -32-2-512-6653

U.S. Mission to NATO

PSC 81/Box 67

APO AE 09724

Phone: 011-32-2-726-4580 (ext 3157)
Fax: 011-32-2-726-5796
web site: www.nato.int/usa/homepage.htm

ADDRESSES

Copies of specific individual NATO project announcements may be requested from the U.S.
Department of Commerce,
Office of Telecommunications, Room 4327
14th & Constitution Ave., NW
Washington D.C. 20230-0002
ATTN: NATO Projects Officer
Phone: 202-482-1512
Fax: 202-482-5834

U.S. Mission to NATO
PSC 81
APO AE 09724
Phone: 011-32-2-726-4580, ext.3158
Fax: 011-32-2-726-5796
Contact:
Shun Ling
U.S. Representative
Infrastructure Committee

NATO Supply Center
(ATTN. PP)
B.P. 13 CAP
Camp de Capellen
Grande-Duche de Luxembourg
Phone: 011-352-308585-557
Fax: 011-352-308721

NAMSA Liaison Officer
ODUSD International Programs
Room 2B329
The Pentagon
Washington, D.C. 20301-3070
Phone: 703-614-3819, ext. 17
Fax: 703-695-5343

U.S. Representative to NAMSA
NAMSA

L-8302 Capellen
Luxembourg
APO AE 09715
Phone: 011-352-3063-6293
Fax: 011-352-305-644

DOD SSP
Special Assistance Desk
700 Robbins Avenue Building 4D
Philadelphia, PA 19111-5094
Phone: 215-697-2667/2179

U.S. Government Bookstore (GPO)
1510 H Street, N.W.
Washington, D.C. 20005
Phone: 202-653-5075

NATO C3 Agency
Rue de Geneve 8
B-1140 Brussels
Belgium
Phone: 011-32-2-707-8284
Fax: 011-32-2-707-8770 or 8271
Chief Contracting Officer: Mr. Tom Herway
website: www.nc3a.nato.int

Commercial Service
American Embassy
27 Boulevard du Regent
B-1000 Brussels, Belgium
Phone: 011-32-2-508-2111
Fax: 011-32-2-512-6653
Commercial Specialist: Mr. Danny Duman

For Basic Ordering Agreements:
Mr. Jim Wager
Tel.: 011-3202-707-8322
Fax: 011-32-2-707-8271

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